

【Fundamentals Navigator】

CPI for Feb 2020: Gasoline and travel-related items squeeze growth

(original Japanese report issued on March 19, 2020)

Coronavirus to continue depressing petroleum products, hotel charges, overseas travel

Nationwide core CPI growth was +0.6% YoY in Feb, matching the market forecast and narrowing 0.2ppt from +0.8% in Jan. Growth was depressed by the outbreak of COVID-19. Energy prices put downward pressure on the CPI, with gasoline prices in particular falling in reflection of the steep drop in global crude oil prices on concerns about diminished demand. Curbs on overseas travel and the decline in inbound tourists are having a visible effect on declines in travel-related items (hotel charges and overseas tour packages had a combined -0.07ppt effect on core CPI growth). Declines in these categories look poised to continue for the time being. The CPI will also presumably come under stronger downward pressure the longer the spread of COVID-19 constrains economic activity and has a knock-on effect on jobs and wages.

(1) Overview: Growth for the nationwide core CPI (all items excl. fresh food) was +0.6% YoY in Feb, matching the market forecast and narrowing 0.2ppt from +0.8% in Jan. Growth excluding the impact of the consumption tax hike and the abolition of tuition fees was +0.2% YoY, also 0.2ppt narrower than the rate in Jan.

(2) Energy: Energy price growth in Feb was -0.2% YoY, back into negative YoY territory after the +0.8% figure in Jan. We estimate the contribution to YoY growth in the core CPI at -0.08ppt. Prices were down versus Jan for gasoline, electricity and gas, and YoY growth rates for these items either rose by less or declined by wider margins. Electricity and gas prices reflect movement in crude oil and gas import prices 3-5 months earlier, but the fall for gasoline reflected recent decreases in oil prices.

(3) Core-core CPI: Growth in the CPI for all items (less fresh food & energy; "core-core CPI") was +0.6% YoY in Feb, down 0.2pt from the +0.8% growth in Jan. The total MoM change in contribution to YoY core-core CPI growth was -0.15ppt. The spread of COVID appeared to have an impact on several items in the index, and overall it depressed CPI growth. Prices for overseas travel packages (-9.6% in Feb vs. +0.3% in Jan; -0.05ppt MoM change in contribution) have frequently fallen YoY since last Sep, but the decline in Feb was relatively large. Hotel charges (-3.1% in Feb vs. -2.0% in Jan) also weighed on the core-core CPI (MoM change in contribution: -0.02ppt). The decline for hotel charges in Jan owed partly to the year-earlier level being elevated by the calendar effect, and as such the result for Feb suggests downward pressure intensified. Price growth widened for face masks, supplies of which are running short, but they have little impact on the overall CPI (+3.7% in Feb vs. +1.1% in Jan; +0.00ppt MoM change in contribution). Durable goods (e.g., vacuum cleaners, mobile phones, air conditioners) also put downward pressure on

Results and market consensus

(released 19 Mar 2020)

Nationwide (February 2020)

Core CPI (ex. fresh food):

+0.6% YoY

(market consensus: +0.6% YoY)

Core-core CPI (ex. fresh food & energy): +0.6% YoY

(market consensus: +0.7% YoY)

(Market consensus: Bloomberg)

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the index. Growth in food prices excl. fresh food slowed for the first time in five months (+1.8% in Feb, +1.9% in Jan; -0.01ppt MoM change in contribution). Food price growth had been widening since the consumption tax hike, but the increase in prepared food prices has slowed of late. A notable positive contributor to growth was tax charges (+7.7% in Feb, +2.1% in Jan; +0.01ppt MoM change in contribution), which were up as roughly half of municipalities across Japan raised prices.

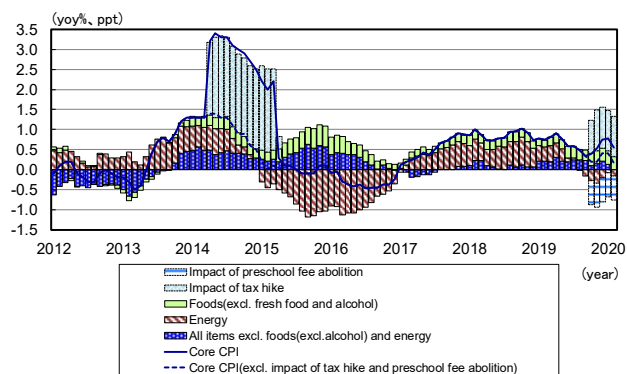
(4)Outlook: The plunge in global oil prices is affecting domestic petroleum product prices. In addition to gasoline prices, kerosene prices (which were up modestly in Feb) are also likely to decline in March. Hotel charges and overseas tour packages (which depressed the CPI in Feb) are likely to assert downward pressure on the index for the time being, with travel abroad being constrained and inbound tourist numbers down. Other items will also presumably come under stronger downward pressure as the spread of COVID-19 drags on economic activity and the knock-on effect on jobs and wages surfaces.

Figure 1. Consumer price indices

(YoY,%)		2019										2020	
		3	4	5	6	7	8	9	10	11	12	1	2
Nationwide	All items	+0.5	+0.9	+0.7	+0.7	+0.5	+0.3	+0.2	+0.2	+0.5	+0.8	+0.7	+0.4
	(excl. impact of tax hike and preschool fee abolition)	-	-	-	-	-	-	-	+0.0	+0.2	+0.5	+0.3	+0.1
	All items, less fresh food	+0.8	+0.9	+0.8	+0.6	+0.6	+0.5	+0.3	+0.4	+0.5	+0.7	+0.8	+0.6
	(excl. impact of tax hike and preschool fee abolition)	-	-	-	-	-	-	-	+0.2	+0.2	+0.4	+0.4	+0.2
	All items, less fresh food and energy	+0.4	+0.6	+0.5	+0.5	+0.6	+0.6	+0.5	+0.7	+0.8	+0.9	+0.8	+0.6
(excl. impact of tax hike and preschool fee abolition)	-	-	-	-	-	-	-	+0.5	+0.6	+0.6	+0.6	+0.4	
	Energy	+5.1	+4.6	+3.7	+1.2	+0.6	-0.3	-1.9	-2.7	-2.1	-0.6	+0.8	-0.2
Tokyo	All items	+0.9	+1.3	+1.1	+1.1	+0.9	+0.6	+0.4	+0.4	+0.8	+1.0	+0.6	+0.4
	All items, less fresh food	+1.1	+1.3	+1.1	+0.9	+0.9	+0.7	+0.5	+0.5	+0.6	+0.8	+0.7	+0.5
	All items, less fresh food and energy	+0.7	+0.9	+0.8	+0.8	+0.8	+0.7	+0.6	+0.7	+0.7	+0.9	+0.9	+0.7
	Energy	+8.9	+7.5	+5.7	+3.5	+2.5	+1.1	-0.9	-2.1	-1.3	-1.2	-1.3	-3.0

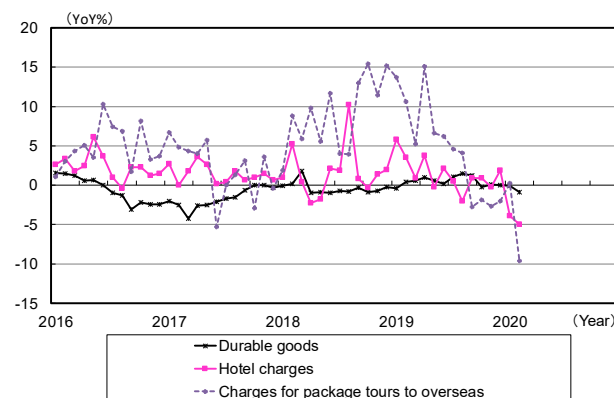
Source: MUMSS, from Ministry of Internal Affairs and Communications (MIC) "Consumer Price Index"

Figure 2. Nationwide core CPI



Source: MUMSS, from MIC "Consumer Price Index"

Figure 3. Nationwide CPI: key categories



Note: MUMSS estimates, adjusted for rise in consumption tax
Source: MUMSS, from MIC "Consumer Price Index"

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Appendix A

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