

## 【Fundamentals Navigator】

## CPI for August 2020: "Go To Travel" scheme prompts first drop in three months

(original Japanese report issued on September 18, 2020)

**PM Suga's remarks on mobile phone fees suggest further negative CPI pressure ahead**

The nationwide core CPI slid 0.4% YoY in August for the first downturn in three months. This was driven largely by a striking 32.0% falloff in accommodation charges, reflecting the travel discounts available under the "Go To Travel" campaign launched on 22 July. We anticipate sustained deflationary pressure from the Go To scheme through next January along with a growing negative impact from an erosion in supply/demand, and believe the core CPI will turn downward in FY20. The CPI could be threatened as well by policy measures other than the travel campaign. Prime Minister Yoshihide Suga's criticism of Japan's high mobile phone charges when he was chief Cabinet secretary led to a revision in fees (which dragged core CPI growth down by around 0.1ppt), and he mentioned those fees again in his inaugural press conference as prime minister

**(1) Overview:** The nationwide core CPI (i.e., excluding fresh foods) fell 0.4% YoY in August for the first downturn in three months (July: 0.0%). This was in line with the median consensus forecast. The overall CPI remained positive at 0.2% (+0.3%) in the face of the ongoing rise in fresh vegetable prices, which jumped 24.3%.

**(2) Accommodation fees plunge on policy measures:** The main factor behind the core CPI decline was a 32.0% YoY drop in accommodation charges (July: -4.5%), which alone pulled the core CPI down 0.39ppt by our estimate. This reflects discounts offered in the government's Go To Travel campaign, which provides subsidies for hotels and other fees connected with domestic travel. The program was launched on 22 July, but as CPI accommodation charges are polled only in the first half of each month (Fridays and Saturdays in the week including the fifth of the month), the effects did not emerge until August. Though Tokyo is presently excluded from the campaign, such charges in the city's 47 wards also fell in August. Accommodation fees in the CPI use a unified national figure.

**(3) Items other than accommodations:** The core-core CPI (i.e., excluding fresh foods and energy) was down 0.1% YoY (July +0.4%, -0.50ppt contribution), the first negative figure since an identical drop in March 2017. The downturn was driven by accommodation charges but was also hurt by a renewed falloff of 3.2% in foreign package tour prices (+1.3%, -0.03ppt). Foods excluding fresh foods were up 0.9% (+1.0%, -0.02ppt) for a third straight month of slower growth. Meats had a relatively large adverse impact in August, while noodle prices have weakened after a period of pandemic-led growth. Mask prices, which also thrived under the pandemic, fell 1.3% for the first drop in eight months (+1.2%, -0.00ppt).

**Results and market consensus**

Nationwide (August 2020)

Core CPI (ex. fresh food):

-0.4% YoY

(market consensus: -0.4% YoY)

Core-core CPI (ex. fresh food &amp; energy): -0.1% YoY

(market consensus: -0.1% YoY)

(Market consensus:

Bloomberg)

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**(4) Energy:** The downtrend in energy prices continued to ease with a 3.5% decline (-4.5%, +0.08ppt). Gasoline and kerosene prices were up MoM for the third and second month running, respectively, and each posted a smaller YoY decline.

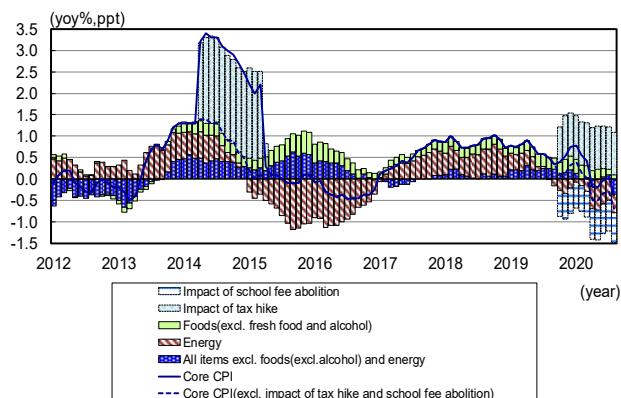
**(5) Mobile phone fees:** We forecast core CPI growth of -0.3% in FY20 on mounting downward pressure from an erosion in supply/demand as well as a sustained negative impact from the Go To Travel campaign through next January. Factors other than the Go To scheme that could threaten the CPI have emerged as well. Prime Minister Yoshihide Suga's criticism of Japan's high mobile phone charges in 2018 when he was chief Cabinet secretary prompted a revision in fees the following year (which dragged core CPI growth down by around 0.1ppt). He mentioned those fees again in his inaugural press conference as prime minister on 16 September, and Internal Affairs and Communications Minister Ryota Takeda has expressed his intention to look into the matter.

**Figure 1. Consumer price indices**

(YoY,%)		2019					2020							
		8	9	10	11	12	1	2	3	4	5	6	7	8
Nationwide	All items	+0.3	+0.2	+0.2	+0.5	+0.8	+0.7	+0.4	+0.4	+0.1	+0.1	+0.1	+0.3	+0.2
	(excl. impact of tax hike and preschool fee abolition)	—	—	0.0	+0.2	+0.5	+0.3	+0.1	+0.1	-0.3	-0.3	-0.2	0.0	-0.1
	All items, less fresh food	+0.5	+0.3	+0.4	+0.5	+0.7	+0.8	+0.6	+0.4	-0.2	-0.2	0.0	0.0	-0.4
	(excl. impact of tax hike and preschool fee abolition)	—	—	+0.2	+0.2	+0.4	+0.4	+0.2	+0.1	-0.6	-0.6	-0.4	-0.3	-0.8
	All items, less fresh food and energy	+0.6	+0.5	+0.7	+0.8	+0.9	+0.8	+0.6	+0.6	+0.2	+0.4	+0.4	+0.4	-0.1
(excl. impact of tax hike and preschool fee abolition)	—	—	+0.5	+0.6	+0.6	+0.6	+0.4	+0.4	0.0	+0.2	+0.2	+0.2	-0.4	
	Energy	-0.3	-1.9	-2.7	-2.1	-0.6	+0.8	-0.2	-1.7	-4.7	-6.7	-5.3	-4.5	-3.5
Tokyo	All items	+0.6	+0.4	+0.4	+0.8	+1.0	+0.6	+0.4	+0.4	+0.2	+0.4	+0.3	+0.6	+0.3
	All items, less fresh food	+0.7	+0.5	+0.5	+0.6	+0.8	+0.7	+0.5	+0.4	-0.1	+0.2	+0.2	+0.4	-0.3
	All items, less fresh food and energy	+0.7	+0.6	+0.7	+0.7	+0.9	+0.9	+0.7	+0.7	+0.2	+0.5	+0.4	+0.6	-0.1
	Energy	+1.1	-0.9	-2.1	-1.3	-1.2	-1.3	-3.0	-3.8	-4.3	-4.7	-3.5	-3.2	-2.9

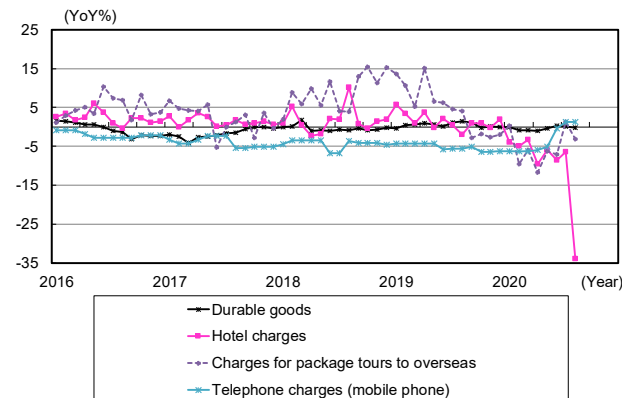
Source: MUMSS, from Ministry of Internal Affairs and Communications (MIC) "Consumer Price Index"

**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"

Shuji Tonouchi  
Senior Market Economist  
Masatoshi Moriyama  
Senior Economist  
Lee Chiwoong  
Chief Economist

## Appendix A

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