

【Fundamentals Navigator】**CPI for September 2020: Core CPI down for second straight month**

(original Japanese report issued on October 23, 2020)

Downtrend to persist through second half of FY20, with declines in energy and accommodation, downward pressure from worsened supply/demand

Japan's nationwide core CPI for September was down 0.3% YoY, marking the second straight month of decline. The modest improvement versus August (-0.4%) was due to a slower rate of decline in accommodation fees. However, owing to the impact of discounts offered through the "Go To Travel" campaign, accommodation fees were still down sharply, with a YoY decline in the 30% range. In food (ex. fresh food), growth continued to slow, partly due to the absence of price hikes carried out in 2019. We expect October figures to show a roughly 0.3ppt sharper drop in the core CPI, with earlier impacts from the October 2019 consumption tax hike and adoption of free early childhood education playing out. Even on an underlying basis excluding such one-offs, we expect the core CPI to continue to fall in the second half of FY20 due to continued downward pressure from energy and accommodation fees as well as downward pricing pressure stemming from worsened supply/demand conditions.

(1) Overview: Japan's Consumer Price Index (General index excluding fresh food), or core CPI, for September was down 0.3% YoY, marking the second straight month of decline. The pace of decline was slower than in August (-0.4%) and also slightly below market estimates. The core core CPI (all items ex. fresh food and energy) was flat YoY, slipping out of a downtrend for the first time in two months (-0.1% in Aug). Reflecting a drop-off in fresh vegetable prices from an earlier spike (+4.4% vs. +24.3% in Aug), the headline CPI slowed to no YoY change (+0.2% in Aug).

(2) Items that contributed positively: One item that contributed to improvement in the core CPI was accommodation fees (-30.0% YoY vs. -32.0% in Aug; change in contribution to YoY change in core CPI: +0.08ppt [our estimate; same hereafter]). Accommodation fees plunged in August, reflecting the effects of discounts offered through the government's "Go To Travel" campaign, and while they were down sharply again in September, the pace of decline narrowed slightly, which boosted the core CPI. Meanwhile, September figures showed a sharper increase for clothing & footwear (+1.7% vs. +1.3% in Aug; +0.02ppt). This seems to reflect an easy YoY comparison due to price cuts in September 2019. Apparel remained on a narrow downtrend after adjusting for the consumption tax hike's impact. Discounts have likely been offered widely in response to sluggish sales, but the CPI, which does not reflect price fluctuations stemming from short-term sales discounts, appears relatively settled.

Results and market consensus

Nationwide (September 2020)
 Core CPI (ex. fresh food):
 -0.3% YoY
 (market consensus: -0.4% YoY)
 Core-core CPI (ex. fresh food & energy): 0.0% YoY
 (market consensus: -0.1% YoY)
 (Market consensus:
 Bloomberg)

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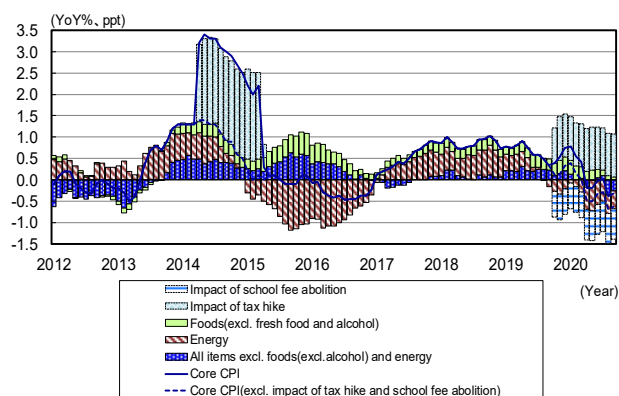
- (3) **Items that contributed negatively:** Food (ex. fresh food) slowed for the fourth straight month (+0.8% vs. +0.9% in Aug; change in contribution: -0.02ppt). Rice, for which supply/demand conditions reportedly worsened, was down YoY for the first time in a year (-0.2% vs. +0.8% in Aug), and growth continued to slow for noodles and confectionery as benefits from price hikes carried out in 2019 waned. Outside of food, the pace of decline accelerated for overseas package tours (-6.5% vs. -3.2% in Aug; -0.02ppt).
- (4) **Energy:** With a 3.5% YoY decrease, September figures showed no change from August. Gasoline was up MoM and the YoY decline narrowed. In contrast, electricity bills fell more sharply YoY, offsetting the smaller decline in gasoline prices.
- (5) **Outlook:** We expect October figures to show a roughly 0.3ppt sharper YoY drop in the core CPI, with earlier impacts from the October 2019 consumption tax hike and adoption of free early childhood education playing out. Even on an underlying basis excluding such one-offs, energy will probably remain on a downtrend for a while, and we also anticipate continued downward pressure from accommodation fees due to the “Go To Travel” campaign. Factoring in this, as well as downward pricing pressure due to worsened supply/demand conditions, we expect the core CPI to remain on a downtrend through the second half of FY20. The Suga Cabinet is pushing for mobile service fee reductions, and we estimate that a 10% decline in “mobile phones” as included in the CPI would push the core CPI down by about 0.2ppt.

Figure 1. Consumer price indices

(YoY,%)		2019				2020								
		9	10	11	12	1	2	3	4	5	6	7	8	9
Nationwide	All items	+0.2	+0.2	+0.5	+0.8	+0.7	+0.4	+0.4	+0.1	+0.1	+0.1	+0.3	+0.2	0.0
	(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	-0.3
	All items, less fresh food	+0.3	+0.4	+0.5	+0.7	+0.8	+0.6	+0.4	-0.2	-0.2	0.0	0.0	-0.4	-0.3
	(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	-0.7
	All items, less fresh food and energy	+0.5	+0.7	+0.8	+0.9	+0.8	+0.6	+0.6	+0.2	+0.4	+0.4	+0.4	-0.1	0.0
Tokyo	All items	-1.9	-2.7	-2.1	-0.6	+0.8	-0.2	-1.7	-4.7	-6.7	-5.3	-4.5	-3.5	-3.5
	All items, less fresh food	+0.4	+0.4	+0.8	+1.0	+0.6	+0.4	+0.4	+0.2	+0.4	+0.3	+0.6	+0.3	+0.2
	All items, less fresh food and energy	+0.6	+0.7	+0.7	+0.9	+0.9	+0.7	+0.7	+0.2	+0.5	+0.4	+0.6	-0.1	0.0
	Energy	-0.9	-2.1	-1.3	-1.2	-1.3	-3.0	-3.8	-4.3	-4.7	-3.5	-3.2	-2.9	-3.3

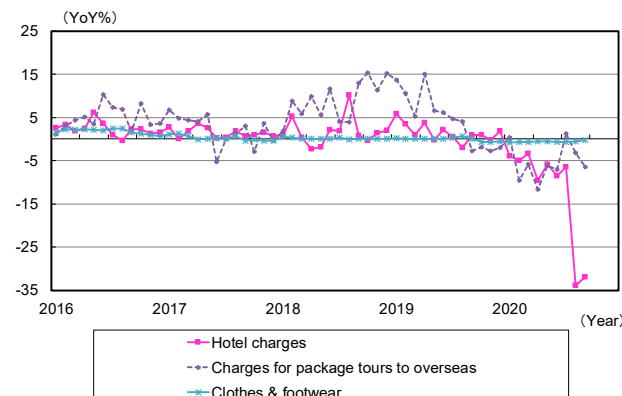
Source: MUMSS, from Ministry of Internal Affairs and Communications (MIC) "Consumer Price Index"

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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