

[Fundamentals Navigator]***CPI for December 2020: Core CPI decline worsens to -1.0%***

(original Japanese report issued on January 22, 2021)

Minimal drop excluding Go To campaign effect and cheap oil; decline to ease as energy picks up

The nationwide core CPI fell 1.0% YoY in December (November: -0.9%). This is the first 1% downturn in the core CPI since September 2010 (-1.1%). Prices were falling clearly at that time amid lingering deflationary pressure with the financial crisis and downward pressure from policy factors (elimination of high school tuitions). In contrast, core-core growth is currently positive excluding the discounted accommodation fees under the Go To travel campaign, and deflationary pressure is comparatively weak. Oil product prices are on the rise with the comeback in crude oil, suggesting that the negative effect of falling energy prices will retreat. We believe the decline in the core CPI will ease in the coming months.

(1) Overview: The nationwide core CPI excluding fresh foods fell 1.0% YoY in December (November: -0.9%), worsening by 0.1pt from the previous month. Core-core growth excluding fresh foods and energy was down 0.4% (-0.3%). Core CPI for 2020 was thus down 0.2% (2019: +0.6%) for the first decrease in four years, while the core-core CPI slowed to +0.2% (+0.6%).

(2) Energy prices: Energy prices continued their accelerating decline with an 8.1% YoY drop (November: -7.6%, contribution to CPI YoY growth: -0.04ppt (our estimate)). Electricity and gas fees sank again MoM and suffered a greater YoY retreat than in November. Prices for oil products like gasoline and kerosene climbed 0.9% MoM in line with the comeback in global oil markets, and the YoY decrease narrowed slightly to -8.0% (-8.2%).

(3) Core-core CPI: Notable negative contributions included mobile phone handsets, down 4.5% YoY (November: +0.3%, -0.03ppt contribution); golf clubs, down 0.2% (+42.5%, -0.03ppt); and theater tickets, down 9.6% (0.0%, -0.01ppt). The handset and golf club figures represent a backlash from significant price swings a year earlier and harmed both core and core-core YoY growth. Prices for both are stable at present and do not appear to be under strong pressure. Foods excluding fresh foods were down 0.1%, unchanged from November.

(4) Difference with 2010: The 1.0% slump in the core CPI was the first at that level since September 2010 (-1.1%). Though energy prices in the latter case were rising, prices overall were being weighed down by lingering deflationary pressure from the financial crisis and the elimination of high school tuitions (which dragged core CPI down by 0.5ppt). In contrast, core growth at present is roughly flat excluding

Results and market consensus

Nationwide (December 2020)

Core CPI (ex. fresh food):

-1.0% YoY

(market consensus: -1.1% YoY)

Core-core CPI (ex. fresh food & energy): -0.4% YoY

(market consensus: -0.4% YoY)

(Market consensus:

Bloomberg)

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energy (-0.6ppt) and the discounted accommodation fees under the Go To travel campaign (-0.4ppt), and deflationary pressure is modest. We attribute this to the relative calm of inflation expectations generated by the stability in forex markets.

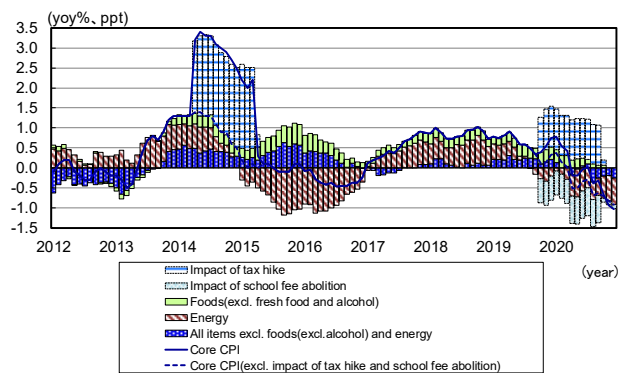
(5) Forecast: We expect the decline in core CPI to ease in the coming months. The uptrend in oil and oil product prices should spread after a lag to electricity fees, leading to a slower YoY falloff in energy overall. Accommodation charges should pick up as well in January with the suspension of the Go To campaign. The impact of revisions in mobile phone fees, which will come into full force in March, is harder to predict (we estimate a contribution of around -0.2ppt), but we do not believe this will cancel out the positive effects of rising energy prices.

Figure 1. Consumer price indices

(YoY,%)		2019	2020											
		12	1	2	3	4	5	6	7	8	9	10	11	12
Nationwide	All items	+0.8	+0.7	+0.4	+0.4	+0.1	+0.1	+0.1	+0.3	+0.2	0.0	-0.4	-0.9	-1.2
	(excl. impact of tax hike and preschool fee abolition)	+0.5	+0.3	+0.1	+0.1	-0.3	-0.3	-0.2	0.0	-0.1	-0.3	-0.5	—	—
	All items, less fresh food	+0.7	+0.8	+0.6	+0.4	-0.2	-0.2	0.0	0.0	-0.4	-0.3	-0.7	-0.9	-1.0
	(excl. impact of tax hike and preschool fee abolition)	+0.4	+0.4	+0.2	+0.1	-0.6	-0.6	-0.4	-0.3	-0.8	-0.7	-0.8	—	—
	All items, less fresh food and energy	+0.9	+0.8	+0.6	+0.6	+0.2	+0.4	+0.4	+0.4	-0.1	0.0	-0.2	-0.3	-0.4
(excl. impact of tax hike and preschool fee abolition)	+0.6	+0.6	+0.4	+0.4	0.0	+0.2	+0.2	+0.2	-0.4	-0.3	-0.3	—	—	
	Energy	-0.6	+0.8	-0.2	-1.7	-4.7	-6.7	-5.3	-4.5	-3.5	-3.5	-5.7	-7.6	-8.1
Tokyo	All items	+1.0	+0.6	+0.4	+0.4	+0.2	+0.4	+0.3	+0.6	+0.3	+0.2	-0.3	-0.7	-1.3
	All items, less fresh food	+0.8	+0.7	+0.5	+0.4	-0.1	+0.2	+0.2	+0.4	-0.3	-0.2	-0.5	-0.7	-0.9
	All items, less fresh food and energy	+0.9	+0.9	+0.7	+0.7	+0.2	+0.5	+0.4	+0.6	-0.1	0.0	-0.2	-0.2	-0.4
	Energy	-1.2	-1.3	-3.0	-3.8	-4.3	-4.7	-3.5	-3.2	-2.9	-3.3	-5.6	-8.9	-10.2

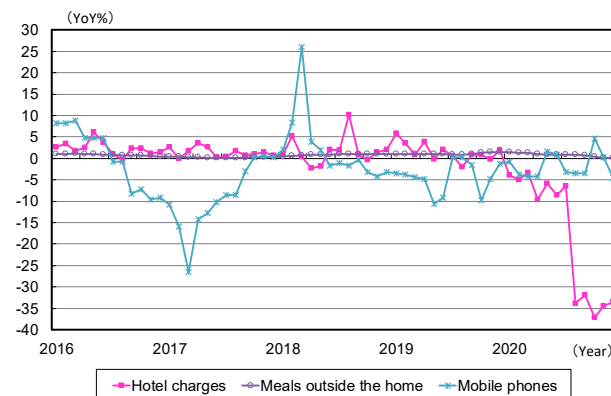
Source: MUMSS, from Ministry of Internal Affairs and Communications (MIC) "Consumer Price Index"

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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