

【Fundamentals Navigator】

CPI for February 2021: Core decline continues to narrow

(original Japanese report issued on March 19, 2021)

Higher core-core growth not sustainable, but price cuts should also be limited

The nationwide core CPI fell 0.4% YoY in February, posting a smaller decline for a second month. Energy continued to improve on increases in utility charges in addition to the previous price hikes for petroleum products. Core-core CPI rose 0.2%, expanding on January's 0.1% gain. This was attributable largely to overseas package tours and luggage. Sales of the former have plummeted, so price changes are not reflective of consumer experience, while the rise in luggage prices reflects the end of limited-term bargain sales and is unlikely to prove sustainable. We believe the falloff in energy prices will continue to narrow in the coming months, but inflation in other categories otherwise looks to remain sluggish..

- (1) Overview:** The nationwide core CPI excluding fresh foods slipped 0.4% YoY in February, an improvement of 0.2pt from the preceding month (January: -0.6%). The decline narrowed for a second straight month.
- (2) Energy prices:** The falloff in energy prices improved further to a 7.2% YoY drop (+0.12ppt contribution to core CPI YoY growth (our estimate), January: -8.6%). Gasoline/kerosene prices climbed a third month thanks to rising oil prices, and electricity and city gas charges exceeded the preceding month for the first time in nine and ten months, respectively.
- (3) Other prices:** The core-core CPI excluding fresh foods and energy improved to a 0.2% YoY gain (January: +0.1%), boosting growth by 0.06ppt. The biggest positive contributions came from overseas package tours and luggage (imported brands). Because of the difficulty in acquiring data on overseas tour prices in light of the plunge in sales, the CPI simply applies last year's price changes. That is, these are assumed figures, and the price differences diverge significantly from actual consumer experience. The upturn in luggage prices follows a steep downturn in January as well as the end of limited-term bargain sales (sale prices of over one week are included in the CPI) and are unlikely to prove sustainable.
- (4) Food prices:** Food prices excluding fresh foods rose 0.0% YoY (January: -0.1%), breaking out of the negative for the first time in four months. Demand for at-home eating and drinking under the state of emergency has reduced the retreat in cooking oil and spices to a 0.7% drop (-1.4%) and liquor to a 0.2% drop (-0.6%). Restaurants were 0.0% as in January despite continued weak demand as subsidies for temporary suspensions of business have helped prevent undue price cutting.

Results and market consensus

Nationwide (February 2021)

Core CPI (ex. fresh food):

-0.4% YoY

(market consensus: -0.4% YoY)

Core-core CPI (ex. fresh food & energy): +0.2% YoY

(market consensus: +0.2% YoY)

(Market consensus: Bloomberg)

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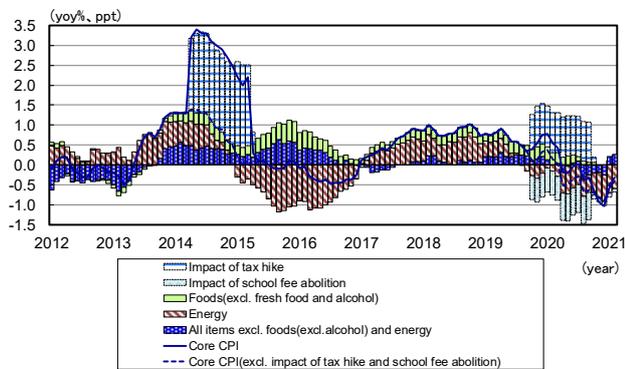
(5) Outlook: We believe the CPI downtrend will continue to lessen, including a further reduction of negative pressure from energy prices. Weekly petroleum product retail prices published by the Agency for Natural Resources and Energy continue to improve, with data as of 15 March showing prices at the brink of an upturn to positive YoY territory. Inflation otherwise looks to be sluggish even excluding the effects of mobile phone fee cuts (we estimate a 0.2ppt negative impact on core CPI) and the Go To travel campaign. Still, while inflationary pressure is absent at present, downward pressure on prices also appears limited. We believe the slump YoY in the Nikkei CPINow daily price index, which looks at daily average sales prices for food and daily necessities, is largely a backlash from bullish prices last year during the pandemic-related stockpiling of goods.

Figure 1. Consumer price indices

(YoY,%)		2020												2021	
		2	3	4	5	6	7	8	9	10	11	12	1	2	
Nationwide	All items	+0.4	+0.4	+0.1	+0.1	+0.1	+0.3	+0.2	0.0	-0.4	-0.9	-1.2	-	-0.6	-0.4
	(excl. impact of tax hike and preschool fee abolition)	+0.1	+0.1	-0.3	-0.3	-0.2	0.0	-0.1	-0.3	-0.5	-	-	-	-	-
	All items, less fresh food	+0.6	+0.4	-0.2	-0.2	0.0	0.0	-0.4	-0.3	-0.7	-0.9	-1.0	-	-0.6	-0.4
	(excl. impact of tax hike and preschool fee abolition)	+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	+0.6	+0.6	+0.2	+0.4	+0.4	+0.4	-0.1	0.0	-0.2	-0.3	-0.4	-	0.1	0.2
Tokyo	(excl. impact of tax hike and preschool fee abolition)	+0.4	+0.4	0.0	+0.2	+0.2	+0.2	-0.4	-0.3	-0.3	-	-	-	-	-
	Energy	-0.2	-1.7	-4.7	-6.7	-5.3	-4.5	-3.5	-3.5	-5.7	-7.6	-8.1	-	-8.6	-7.2
	All items	+0.4	+0.4	+0.2	+0.4	+0.3	+0.6	+0.3	+0.2	-0.3	-0.8	-1.2	-	-0.5	-0.3
	All items, less fresh food	+0.5	+0.4	-0.1	+0.2	+0.2	+0.4	-0.3	-0.2	-0.5	-0.7	-0.9	-	-0.5	-0.3
	All items, less fresh food and energy	+0.7	+0.7	+0.2	+0.5	+0.4	+0.6	-0.1	0.0	-0.2	-0.2	-0.4	-	0.2	0.2
Energy	-3.0	-3.8	-4.3	-4.7	-3.5	-3.2	-2.9	-3.3	-5.6	-8.9	-10.2	-	-10.9	-9.8	

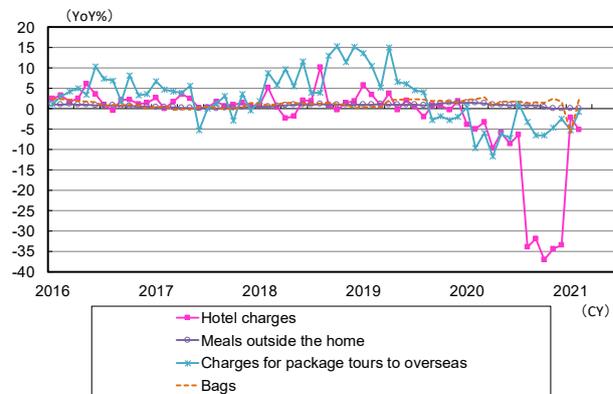
Source: MUMSS, from Ministry of Internal Affairs and Communications (MIC) "Consumer Price Index"

Figure 2. Nationwide core CPI



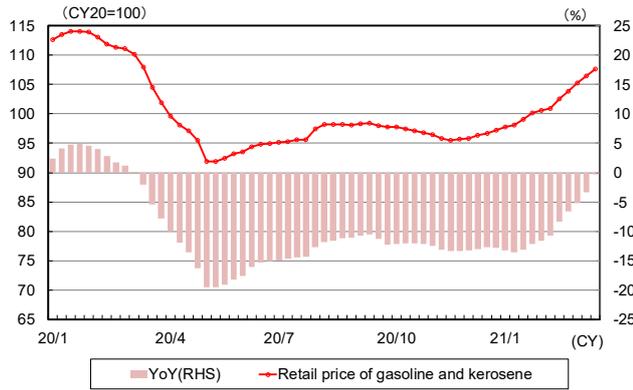
Source: MUMSS, from MIC "Consumer Price Index"

Figure 3. Nationwide CPI: Key categories



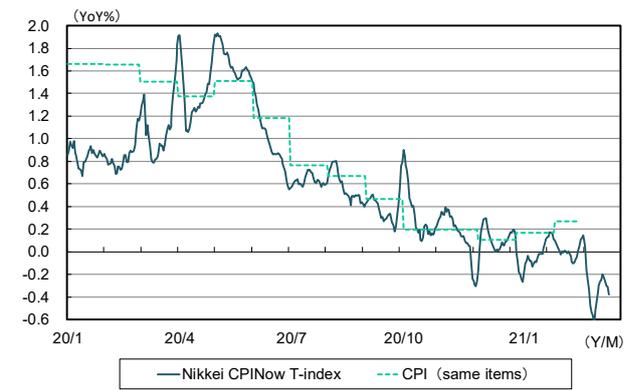
Note: MUMSS estimates, adjusted for rise in consumption tax
Source: MUMSS, from MIC "Consumer Price Index"

Figure 4. Oil product prices



Note: Gasoline and kerosene prices expressed as indices; weighted average, based on CPI weighting
 Source: MUMSS, from Agency for Natural Resources and Energy data and MIC "Consumer Price Index"

Figure 5. Foods and daily goods prices



Note: Nikkei CPINow-T index represents the daily average price of foods and daily goods at supermarkets
 Source: MUMSS, from NOWCAST, Inc. data

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Appendix A

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