

【Fundamentals Navigator】

July 2021 CPI: Core CPI falls following base year revision

(original Japanese report issued on August 20, 2021)

Smaller decline MoM under new standard, higher energy/food prices and rebound in lodging fees reflect 2020 policy factors

Nationwide core CPI inflation fell 0.2% YoY in July (June: -0.5%). The CPI was cut sharply with the adoption of a new base year. Core CPI growth, which had been positive since May under the old base year, turned back downward as the new standard amplified the negative contribution of mobile phone charges. The 0.3pt improvement in CPI growth over June stemmed from higher energy and food prices as well as a rebound in lodging charges from last year's discounted levels under the government's Go To travel campaign. We believe these factors will help boost the CPI to around 0% in August, but lodging charges are a transitory reaction to last year. Though food prices remain on the rise, we believe the pace of increase will be gradual.

- (1) **Shift to new base year:** The nationwide core CPI excluding fresh foods fell 0.2% YoY in July. The shift to a 2020 base year amplified the negative contribution of mobile phone charges. Core CPI growth, which had been positive since May under the old base year, turned downward again under the new standard, with June growth revised from the initial 0.2% rise to a 0.5% drop.
- (2) **Breakdown:** Core CPI growth YoY improved 0.3pt over June. Energy prices (estimated contribution to core CPI YoY: +0.11ppt) climbed at a faster clip with a gain of over 3% MoM in gasoline/kerosene prices. The core-core CPI excluding fresh foods and energy sank 0.6%, also a smaller falloff than in June. There was a notable boost from lodging charges (+0.15ppt), in a comeback from the discounts offered with the launch of the government's Go To travel campaign in July last year (we believe the CPI did not reflect this factor under the old standard until August, while the effect emerged in July under the new base year because of a change in survey methods). Newspaper prices also rose on the back of hikes to paper prices nationwide. Food prices excluding fresh foods turned upward for the first time in nine months (+0.04ppt). Manufacturer price revisions in mayonnaise and coffee spread to retailers, while supply difficulties drove egg prices higher.
- (3) **Outlook:** We believe the lift from energy, food and lodgings will continue in August, pushing core CPI inflation up to around 0%. The comeback in lodging prices from absence of the Go To factor will fade in August, and given low user levels, we do not expect the uptrend to remain in force for long. Food prices look to continue upward, but the pace should be gradual. Tobacco prices will be hiked in October (projected contribution to core CPI: +0.03ppt), but the steep adverse impact of mobile phone charges should ensure negative growth for the whole of FY21.

Results and market consensus

Nationwide (July 2021)

Core CPI (ex. fresh food):

-0.2% YoY

(market consensus: -0.4% YoY)

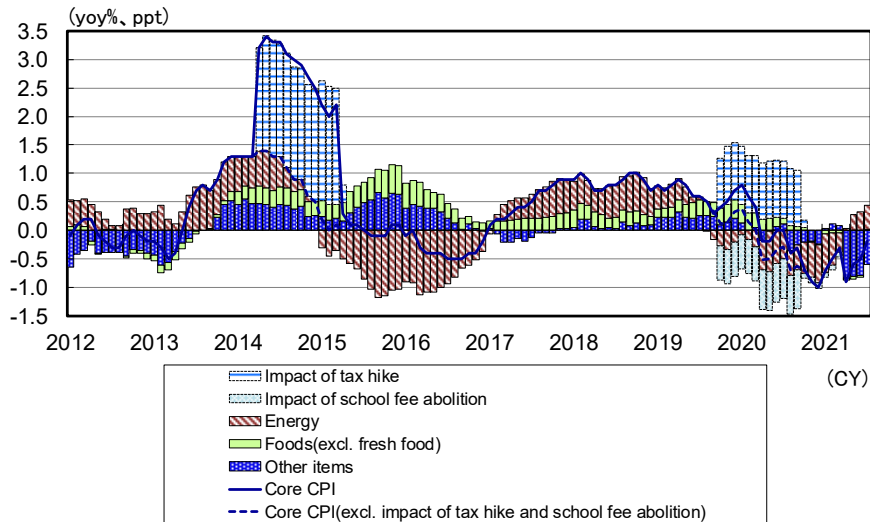
Core-core CPI (ex. fresh food & energy): -0.6% YoY

(market consensus: -0.8% YoY)

(Market consensus: Bloomberg)

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Figure 1. Nationwide core CPI



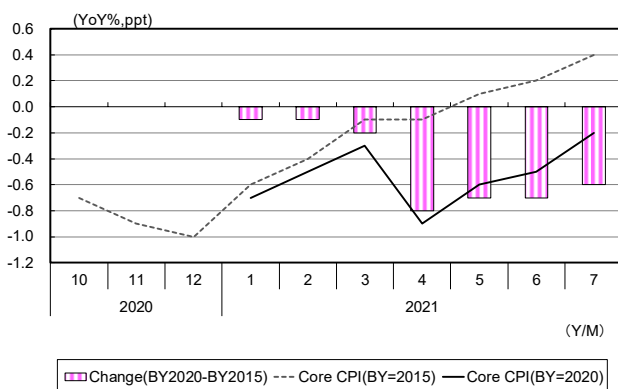
Source: MUMSS, from MIC "Consumer Price Index"

Figure 2. Consumer price indices

(YoY,%)		2020						2021						
		7	8	9	10	11	12	1	2	3	4	5	6	7
Nationwide	All items (excl. impact of tax hike and preschool fee abolition)	+0.3	+0.2	0.0	-0.4	-0.9	-1.2	-0.7	-0.5	-0.4	-1.1	-0.8	-0.5	-0.3
	All items, less fresh food (excl. impact of tax hike and preschool fee abolition)	0.0	-0.1	-0.3	-0.7	-0.9	-1.0	-0.7	-0.5	-0.3	-0.9	-0.6	-0.5	-0.2
	All items, less fresh food and energy (excl. impact of tax hike and preschool fee abolition)	-0.3	-0.8	-0.7	-0.8	-	-	-	-	-	-	-	-	-
	Energy	+0.4	-0.1	0.0	-0.2	-0.3	-0.4	0.0	0.0	0.0	-0.9	-0.9	-0.9	-0.6
	Energy	+0.2	-0.4	-0.3	-0.3	-	-	-	-	-	-	-	-	-
Tokyo	All items	+0.6	+0.3	+0.2	-0.3	-0.8	-1.2	-0.5	-0.3	-0.4	-1.2	-0.9	-0.5	-0.4
	All items, less fresh food	+0.4	-0.3	-0.2	-0.5	-0.7	-0.9	-0.4	-0.4	-0.3	-0.9	-0.7	-0.6	-0.3
	All items, less fresh food and energy	+0.6	-0.1	0.0	-0.2	-0.2	-0.4	0.1	0.1	0.1	-0.7	-0.6	-0.6	-0.4
	Energy	-3.2	-2.9	-3.3	-5.6	-8.9	-10.2	-11.0	-9.9	-8.0	-5.1	-1.8	-0.8	+0.7
	Energy	-4.5	-3.5	-3.5	-5.7	-7.6	-8.1	-8.7	-7.3	-4.5	+0.4	+3.9	+4.3	+5.8

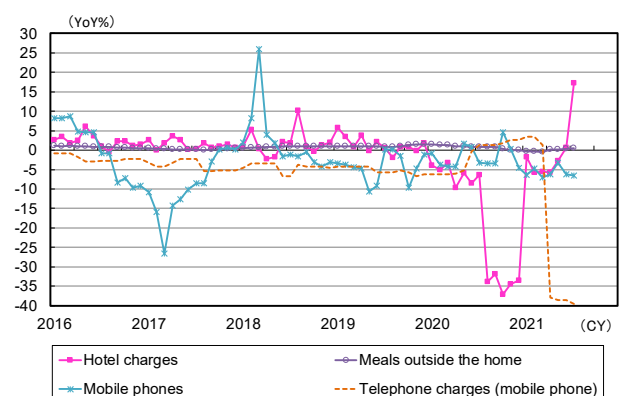
Source: MUMSS, from Ministry of Internal Affairs and Communications (MIC) "Consumer Price Index"

Figure 3. Divergence in Nationwide Core CPI YoY change caused by the base-year revision



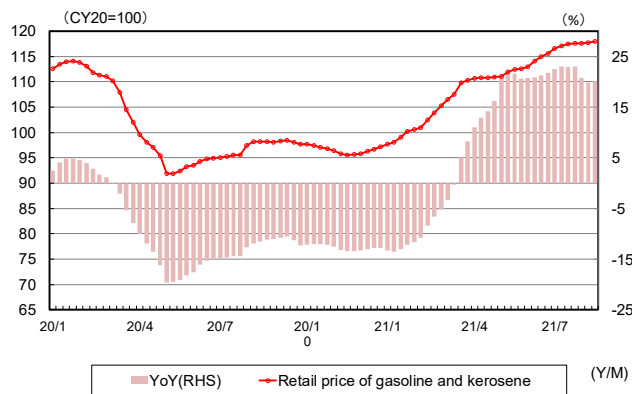
Source: MUMSS, from MIC "Consumer Price Index"

Figure 4. Nationwide CPI: Key categories



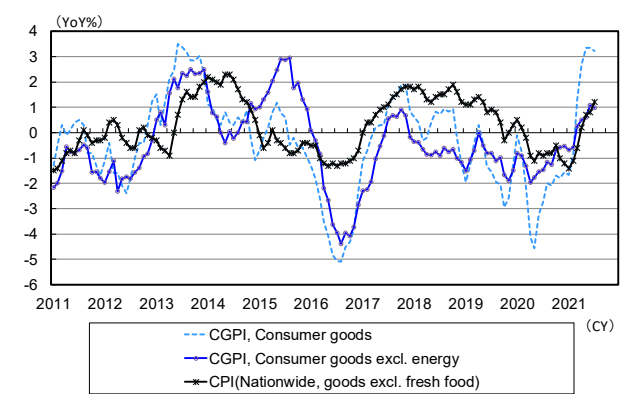
Note: MUMSS estimates, adjusted for rise in consumption tax
Source: MUMSS, from MIC "Consumer Price Index"

Figure 5. Petroleum 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 6. CGPI, Consumer goods and CPI



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

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Appendix A

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