

A Thought on Current Consumer Prices

At its Monetary Policy Meeting on July 20, the Bank of Japan (BOJ) postponed the timing of the attainment of its 2% inflation target until around fiscal 2019. This marked the sixth postponement since Governor Kuroda assumed office in 2013.

With regard to current consumer prices (all items), the rate of increase has remained at the level of only 0.2–0.4% year-on-year since the beginning of the year, certainly far short of the target. Initially, the inflation target was forecast to be achieved in two years, but since that proved to be unattainable even more than four years after the introduction of the policies for the new phase of monetary easing, the government and the BOJ have not yet been able to declare the economy's exit from deflation. The official view on this issued recently by the Cabinet Office in the *Annual Report on the Japanese Economy and Public Finance 2017*, is blatantly evasive, stating to the effect that Japan is not in a deflationary situation in which there is a continuation of sustained price declines, but has not yet reached a stage in which deflation has been overcome, and steady price increases are expected.

According to various statistics, however, there are quite a few indicators that show a steady pace of recovery in the Japanese economy. The period of economic expansion as determined by the Cabinet Office's indexes of business conditions reached 55 months in June this year, already the third longest in the postwar era. As illustrated, in particular, by the fact that the growth rate of real GDP was positive for six successive quarters through the second quarter of this year, the real economy is certainly not in bad shape. In addition, corporate performances remain generally robust.

Nevertheless, why is it that prices are not rising as much as could be expected? The figure shows the

rates of increase in consumer prices (annual average rates for each period examined) of specific items. It can be seen that the price trends from 2010 to last year (lower figure) have two markedly different characteristics, particularly among items whose prices declined. One applies to items with large weights in the consumer price index as a whole. Of these, items whose prices declined were limited to energy-related items in the form of gasoline and manufactured and piped gas, and items that are more closely relevant to people's daily lives in the form of rent and telephone charges (mobile phones). Among these two categories, the former was impacted by international crude-oil prices and was thus beyond the government's control. In the latter category, in each case specific circumstances peculiar to each item have been having a major impact: Japan's population decline in the case of rent; and, in the case of telephone charges, the government's demands for reductions in charges based on its insistence that the services are overpriced.

The other characteristic applies to items that had only small weights in the consumer price index as a whole, but recorded large rates of price declines. The majority of these, such as microwave ovens (annual 10% decline), vacuum cleaners (12%), washer-dryers (17%), video cameras (18%), car-navigation systems (7%), and handheld game consoles (8%), fall into the category of so-called consumer electronics. All of these are items whose prices have fallen not so much because of increasingly fierce competition, but simply because, in the compilation of price statistics, incessant increases in quality and functionality without price changes have probably been treated as price declines. Items other than those referred to above, such as food, clothes, education, and medical care, have generally recorded year-on-year increases, providing additional evidence for concluding that the overall sluggishness of

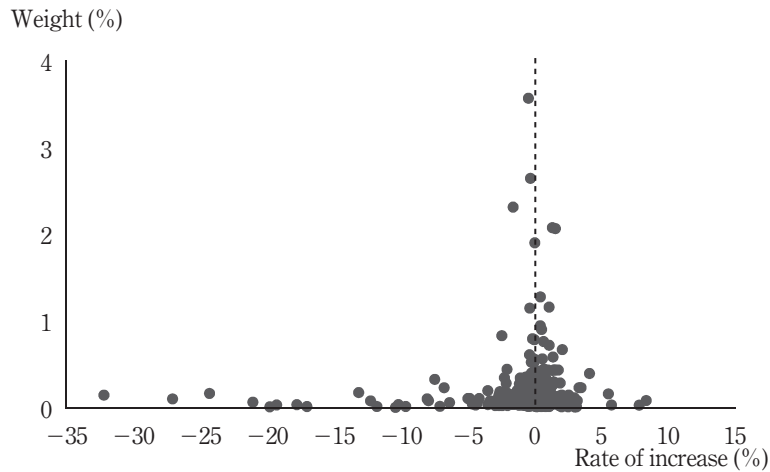
price increases is to a large extent attributable to their being dragged down by certain specific items.

In addition, if we compare the figure for the most recent 2010–16 period (lower figure) with that for the preceding 10 years (upper figure), it can be seen that the cluster of data points plotted on the lower figure has been moving in a positive direction (to the right) relative to the upper figure. Taking all of these factors into consideration, one cannot rule out the possibility that prices have been rising at faster rates than the figures shown in official statistics. This also accords with

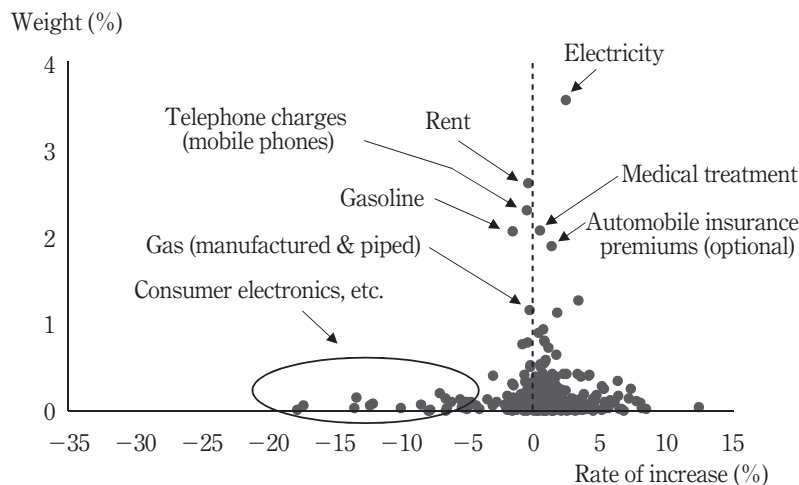
what people are really feeling in their daily lives, as reflected in the BOJ's Opinion Survey on the General Public's Views and Behavior in June this year, in which as many as 67% of the respondents stated that prices have gone up compared with one year ago.

Price indexes are summations derived from applying individual weights to the price levels of individual items. Having done so, the prime focus should, of course, be on the aggregate figures, but sometimes it is meaningful to view them from a different angle by excluding idiosyncrasies in the statistics.

Item-specific rates of increase in consumer prices (annual averages)
2000 -09



2010 -16



Note: Imputed rent (rent deemed for calculation purposes to be paid by owners of owner-occupied dwellings) is excluded from consideration.

Source: Ministry of Internal Affairs and Communications