

The New Year's Economy:

Changes in Price Increase Trends in Japan and Required Countermeasures

The recent price developments once again remind us that the increase rate of around 2% has become firmly established. When signs of an increase in consumer prices first emerged, the common view was that these price rises were temporary. However, the increase rate of the consumer price index (CPI) (all items) exceeded 2% for 31 consecutive months from April 2022 through October last year. We can now say that the image that prices are rising by around 2% has become imprinted on society and is finally becoming established.

Inflation rate projections by enterprises are also changing along with this change in the actual conditions. Through the autumn of 2021, all the increase rate forecasts for one to five years stayed at around 0–1% per year, but in March 2023 the increase rate projection for 1 year rose to 2.8% (see Figure 1). Thereafter, while the actual price increase rate declined, the increase rate projections for three years and five years conversely rose slightly, and in the most recent figures from September last year, the forecasts for one to five years all converge at 2.2–2.4% per year.

This is a major change. It can easily be inferred that the background to this includes the acceleration in wage hikes and the progress in companies passing on cost increases. The fact that a price increase rate of more than 2% is becoming firmly established can be perceived as a positive development whereby the creation of good products and services and their sale at high prices has boosted the momentum for wage increases.

This is going to be a year when long-established systems and ways of thinking are revised. Regarding the revision of the “¥1.03 million wall,” which has recently become a topic of conversation, this can be

viewed as a problem pointed out from the perspective that increases in the basic exemption (¥480,000) and the employment income deductions (¥550,000) have not been advanced in line with price increases. Regarding the child allowance as well, while the benefit coverage has been expanding, the amount of the allowance, which is the base, has been kept unchanged since 2011. Concerning not only systems but monetary policy as well, the policy rates will likely be gradually increased considering that achieving the price stability target of 2% is now in sight. It is also becoming necessary to reexamine how assets should be managed because continuing to hold assets in cash will result in a decline in value equal to the increase in prices.

In revising various systems along with the rise in prices, the way in which goods and services price rises are grasped becomes important. For example, even when using consumer prices as the yardstick, while the recent level (as of October last year) of the CPI overall was up 11.5% from 10 years ago, for food alone the prices were up 30.4% (see Figure 2), so the appearance is very different depending on what is being highlighted. Accordingly, when making adjustments for price rises, it is first necessary to base this on an appropriate index.

In addition, measures that consider widening disparities from price hikes are also important. For example, Engel's coefficient, which measures the proportion of food expenses in consumer spending (cumulative figures for the past 12 months for households of two or more persons), has greatly increased since the middle of 2023 and reached 28.3% as of last October (see Figure 2). Looking at the changes in Engel's coefficient by the income of the head of household from 2019 through

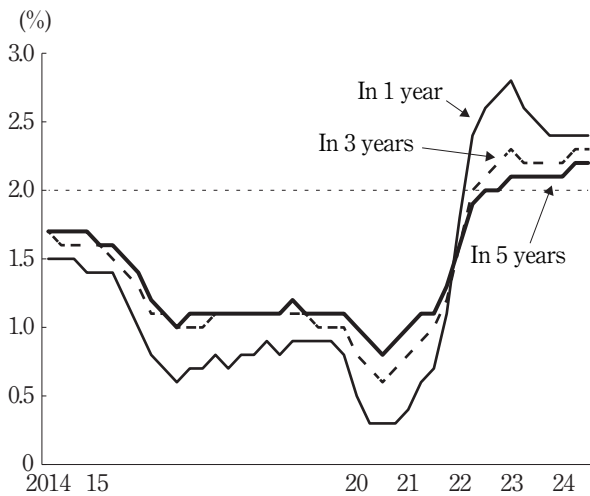
2023, while the overall average increased from 23.9% to 26.5%, the coefficient rose five percentage points from 27.7% to 32.7% at households where the monthly income of the head of household was less than ¥100,000. This implies that the impact of price rises is greater for the many low-income households that are forced to allocate around one-third of their consumption expenditure to food expenses, and that inequality is expanding.

Turning our attention to the economic package decided last November, the centerpiece policy of granting of ¥30,000 to households that are exempted from residential tax payments was viewed as a relief measure

for the needy, but because this also benefits wealthy households which have many assets but no income, it could not probably be considered a desirable economic measure. It is essential to direct extensive support to the truly needy by utilizing the Individual Number system and other measures to ensure that such harms do not occur.

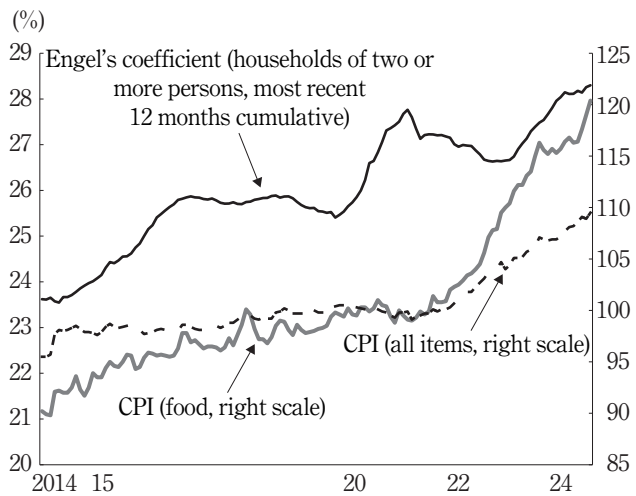
While the policy appeal battle will now further intensify toward the summer House of Councillors election, what is required from each party in the New Year, rather than policies that merely look good, is having the dignity to set policies that rectify disparities and restrain the future burden on the people of Japan.

Figure 1: Trends in Inflation Rate Projections by Enterprises



Source: *Short-Term Economic Survey of Enterprises in Japan (Tankan)* by Bank of Japan

Figure 2: Trends in CPI and Engel's Coefficient



Source: *Consumer price index, Family Income and Expenditure Survey* by Ministry of Internal Affairs and Communications