

## “Consumer Prices,” to rise moderately

The Ministry of Internal Affairs and Communications reports consumer price data every month as a consumer price index (CPI). CPI excluding fresh food with high price volatility called “Core CPI” is a very useful indicator for monitoring trend of inflation. CPI is revised once in five years in order to capture changes of consumer behaviour and to reflect newly invented goods and services. Next revision is scheduled in July 2016, removing outdated and adding updated goods and services.

### Point 1

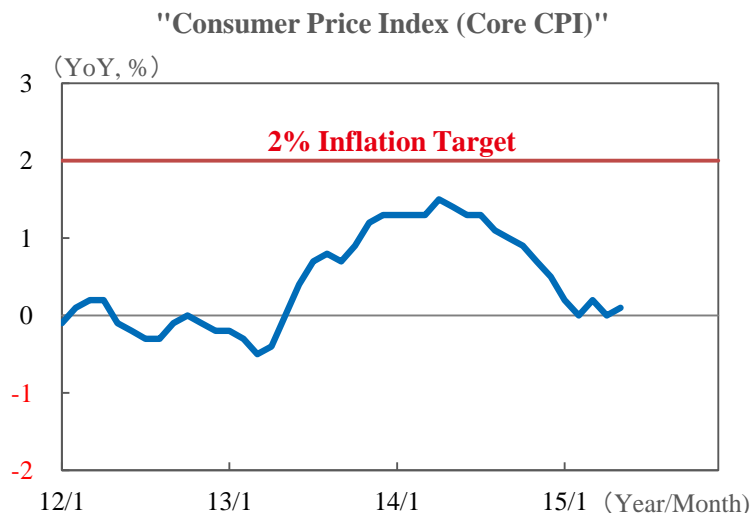
#### “Core CPI” inched up in May Higher food price was offset by energy drop

- May “Core CPI” inched up +0.1% y-o-y, remaining at a moderate recovery from deflation. Energy related prices pulled the CPI lower due to a plunge of crude oil price since last summer. However, the consumer price excluding energy is expected to rise as “Food price excluding fresh food” continues rising caused by processed foods’ price hike.

### Point 2

#### Previous revision lowered CPI on technological innovation Next revision will add housing refurbishment

- The contents of the new revision will be released in July this year. In the previous revision in 2010, 48 outdated items such as word processor were removed and updated 34 items such as flat panel TVs were newly added. At the previous revision, shorter product lifecycle items such as flat panel TVs and mobile phones whose prices tend to decline more rapidly on technological innovation, put downward pressure on the CPI.
- According to the Nikkei newspaper, housing refurbishment and air cleaners will be newly adopted, whereas fewer purchased goods such as thermos bottles will be removed. The revision is likely to push the “CPI” slightly higher as items with recently rising prices such as housing refurbishment will have higher weight.



(Note) Data is from January 2012 to May 2015. (Excluding impact of consumption tax hike)

(Source) SMAM, based on Bloomberg L. P. data.

## ■ Achieving 2% inflation target in the first half of FY 2016 would be difficult

Bank of Japan expressed their view that 2% inflation can be achieved in around the first half of FY2016 as crude oil price will rebound moderately, after hovering around 0% for the time being due to lower energy prices. Although inflation is staying in line with BOJ's forecast at this moment, achieving the 2% target would be difficult. The focus should be on the central bank's next movement such as change of inflation forecast or further monetary easing.

## ■ CPI is expected to rise alongside the economic growth

Private consumption is likely to accelerate underpinned by nominal wage growth and subdued inflation as effect by consumption tax hike has diminished. Moreover, the increasing business confidence for CAPEX will accelerate the economic growth supported by upbeat corporate earnings. Consumer prices are expected to move higher along with a moderate economic growth from second half of this year without substantial price movement in crude oil.

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