

“Consumer Prices” and BOJ’s Policies

The Consumer Price Index (CPI) announced by the Ministry of Internal Affairs and Communications has 3 major indices; 1) “All items”, 2) “All items, less fresh food”, 3) “All items, less food (less alcoholic beverages) and energy”. As an objective of their price stability policy, BOJ aims for a 2% YoY growth of the CPI. In their “Outlook for Economic Activity and Prices” report, also known as the “Outlook Report”, they have announced the outlook of “all items, less fresh food” index, meaning this will be a standard of its monetary policy.

Point 1

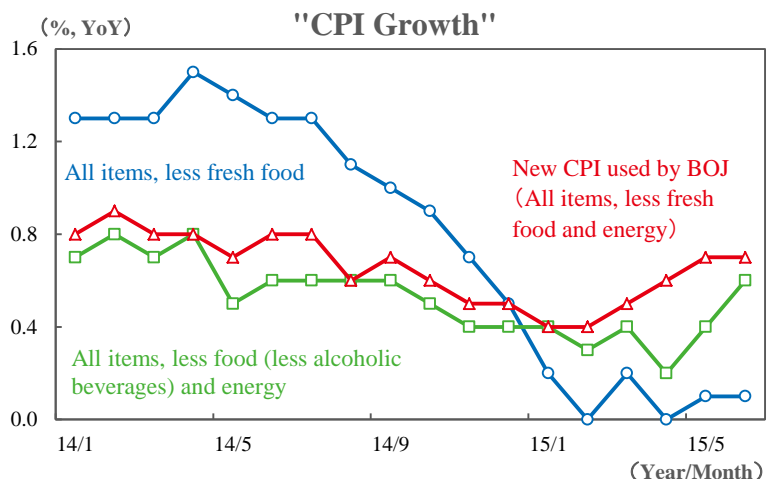
BOJ announces a new index that excludes “energy” Prices are rising when “energy” is excluded

- In the July’s “Monthly Report of Recent Economic and Financial Developments”, BOJ announced a new index “CPI: all items, less fresh food and energy” which they independently calculated by excluding energy from the “CPI: all items, less fresh foods” index. The reason they excluded energy was to remove the large impact of the falling energy price.
- BOJ explains that the price trend is improving when energy is excluded. Price hikes have continued in such sectors as processed foods, so when the energy price is excluded, the index shows a rise after March, proving BOJ’s views.
- To keep consistent with previous policies, it is predicted that BOJ will continue to consider “CPI: all items, less fresh foods”.

Point 2

Prices to rise moderately in the second half of this Year Some view meeting the objective in the first half of FY2016 is difficult

- The YoY growth of the “CPI: all items, less fresh food” is predicted to stay low, for a short period, due to low crude oil price. In the second half of this year, we predict a moderate rise in prices. This is due to the weakening of the downward pressure on prices caused by low crude oil prices and positive effect of wage hikes.
- At the present moment, price changes are moving according to BOJ’s assumptions, but there are views that meeting the 2% price stability goal in the first half of fiscal year 2016 is not an easy task. Any change in BOJ’s policy or price outlook will be under careful observation.



(Note) Data period is from January 2014 to June 2015.
(Source) SMAM, based on Bloomberg L.P. data.

■ Need for immediate additional monetary easing is small

Generally, the price stability goal is believed to improve transparency of policies. For this reason, central banks that have a price stability goal will take flexible monetary policies even under situations where there is a gap between their goal and the price level. Accordingly, if there is a clear reason, such as a crude oil price fall, even if the price rise weakens, there will be a low necessity for BOJ to immediately implement additional monetary easing.

■ Possibility that achieving the price stability goal may take more time

BOJ is setting the period to meet the price stability goal as the first half of fiscal year 2016. If a certain period with weak price rise should continue, the market may speculate additional monetary easing. The reason BOJ has been fixated with the period to meet the price stability goal is that they needed to totally change the “deflationary mindset”. We have passed the deflationary stage but there is still a possibility that the period when BOJ will meet the price stability goal may be postponed further into the future.

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