

How are Spring Price Revisions Going to Affect Our Livings?

They Are Likely to Spill Over to Consumer Prices from Mid-Year, but the Margin of Increase Should Be Limited

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The recent increase in the consumer price index is due mainly to a pickup in energy prices. Excluding energy, therefore, the realization that prices have risen may not be so strong.

However, higher crude oil prices and the weak yen have been pushing up costs for companies, and as higher costs are passed on to selling prices, consumer prices other than energy prices are as well expected to face upward pressure. In fact, since the turn of the year, pretty number of companies in the material and food-related industries have announced plans to raise the prices of their products against the backdrop of rising costs (see the **table** below). As most of these price increases mostly applied to delivery prices to corporate customers, there may be a certain time lag before they spill over to consumer prices.

In that case, how soon, or with how much of a time difference, will higher prices in business-to-business transactions spread to consumer prices? Looking at the time difference correlation coefficient between corporate goods prices and consumer prices, for instance, processed food that is most likely to be affected by the latest price hikes showed a high correlation with a time lag of three to four months. For the same items of processed food, corporate goods prices have been continuing to pick up since November 2016, while consumer prices apparently stopped declining in early 2017 and are expected to go up moderately. As the goods other than processed food and energy are showing a high correlation with a time lag of about six months, the price increases are likely to spread to consumer prices around mid-2017.

Given the strongly economy-minded behavior of Japanese households, however, corporate moves to pass the higher costs on to consumer prices will likely be slow. Companies, for their part, appear to be maintaining a cautious stance on raising prices with the awareness that consumers have quite severe minds towards prices. In fact, some retailers have decided to lower the prices of goods they sell. Service prices also remain on a downward trend despite growing upward pressures on costs against the backdrop of labor shortages, etc.

Under these circumstances, the large part of cost increases is expected to be absorbed by corporate efforts. Consequently, the passing on of higher costs to consumers will likely be limited and the impact of rises in consumer prices to our livings as a result of the spring price revisions is expected to remain minor.

[Table: Main Items for Which Price Hikes were Announced]

Materials	Iron and steel	Steel materials for automobiles
	Chemicals	Vinyl chloride resin, PP, PE, etc.
	Paper and pulp	Printing and writing paper, container board, tissue, etc.
	Grain	Wheat (Government resale price)
Food	Fat and oil processed products	Margarine, whipped cream, etc.
	Oil	Edible oil, olive oil, etc.
	Dairy products	Butter, cheese, etc.
Distribution	-	Postage, delivery charges, etc.
Services	Leisure	Hike in admission fees
Insurance	-	Earthquake insurance, life insurance, etc.
Fuel	Transportation	Revival of fuel surcharge

Source: Made by MHRI based on various press reports and IR materials, etc.

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