

Is corporate cost pass-through actually pushing up consumer prices?

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Upward pressure on prices, other than energy, remain weak

The recent increase in the consumer price index (CPI) is due mainly to a pickup in energy prices. The CPI for all items less fresh food (Core CPI) turned positive in January 2017 for the first time in 13 months. On the other hand, excluding energy, upward pressure on prices remains weak. 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 under 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 (**Chart 1**). 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.

[Chart 1: Main items for price hikes]

Materials	Steel	Steel materials for automobiles
	Chemicals	Vinyl chloride resin, PP, PE, etc.
	Paper and Pulp	Printing and writing paper, containerboard, 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, parcel 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 press reports and IR materials

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. Looking beyond April, there appear to be a few factors that significantly push up prices. Individually, delivery fees of major delivery firms, theme park admission fees and earthquake insurance premiums are set to be raised. But these hikes have only limited effects to directly pushing up prices. For instance, the increases of delivery fees by major delivery firms from October are estimated to push up the Core CPI by only around 0.02% at most. Though food services are relatively sensitive to a change in material costs which may push up the Core CPI, it seems to be difficult to aggressively raise prices since consumers remain highly budget-minded.

On the other hand, reduction in automobile liability insurance premiums and the continuing downward pressure on communication charges are likely to push down prices. Communication charges are likely to continue to be under downward pressure amid the government's continuing pressure for lower cell phone charges and the growing popularity of low-priced smartphones. In March 2017, major cell phone companies announced plans to lower charges for the use of their lines to Mobile Virtual Network Operators (MVNOs)¹ which deal in low-priced smartphones. This could further drive down communication charges. Furthermore, since 2017 is not the year for revisions of medical service fees under the medical insurance system, the coming off of the effect of price increase with the fiscal 2016 revisions should work negative in price increase.

Close watch required for consumers' stronger saving mind against substantial price increases

As stated above, when we look at price trends since early spring, while the pickup in the prices of goods are likely to contribute to pushing up prices, the increase seems to be limited in consideration of the deep-seated saving minds of consumers and the lack of strength of push-up pressure on service prices.

However, it is necessary to pay heed to the possibility of the substantial passing on of higher costs being carried out in a manner not reflected in consumer prices. The unit value index of the SRI-Hitotsubashi Consumer Purchase Index has been picking up since October 2016 (**Chart 2**). The unit value index is computed on the basis of the unit value of volume obtained by dividing the price of a product by volume of the product, and this makes it possible to capture price movements, including the effect of changeover to new products. On the other hand, the price index remains in minus figure in year to year comparison. The price index covers only the same existing products, and as such, is not influenced by the replacement of old products by new products or by such information as volume adjustment. The difference between the two indexes suggests the possibility that prices are actually being raised in a manner hard to perceive for consumers. More precisely, prices of existing products for which price images have been clearly formed are kept unchanged while prices of new products or revamped

¹A mobile virtual network operator (MVNO) is a business that does not establish or operate its own wireless communication lines but borrows the wireless network infrastructure, including mobile telephone circuits, from other businesses to provide mobile telecommunication services, such as cell phones and PHS.

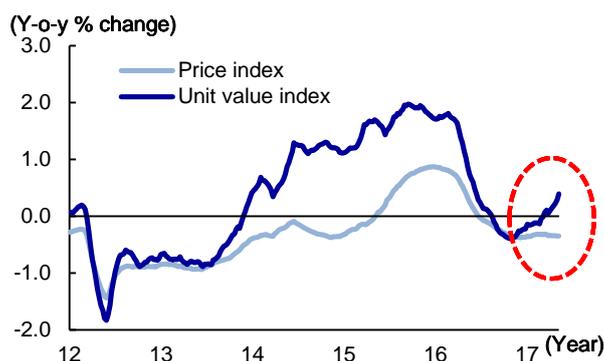
* Details of this article can be found in Haruka Ono, "Trends of companies' passing on of higher costs to prices - Rises in consumer prices are limited but substantive price increases require close watch -" (Mizuho Research Institute Ltd., *Mizuho Insight*, May 25, 2017, in Japanese only).

products are raised.

The CPI index explains changes in prices of a predetermined set of products, and cannot capture price changes of products not covered by the CPI survey. Thus, in a similar way to the price index of SRI-Hitotsubashi Consumer Purchase Index, the CPI does not fully reflect substantive price increases.

If the substantial price increases are being implemented in the manner seen above, the burden on consumers could be increasing more than the figures shown in the CPI. It should be noted that such substantial price increases could further enhance the saving mind of consumers.

[Chart 2: SRI-Hitotsubashi Consumer Purchase Index]



Note: 12-week moving average

Source: Made by MHRI based on SRI-Hitotsubashi Consumer Purchase Index

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