

# The Japanese economy: topic of the month

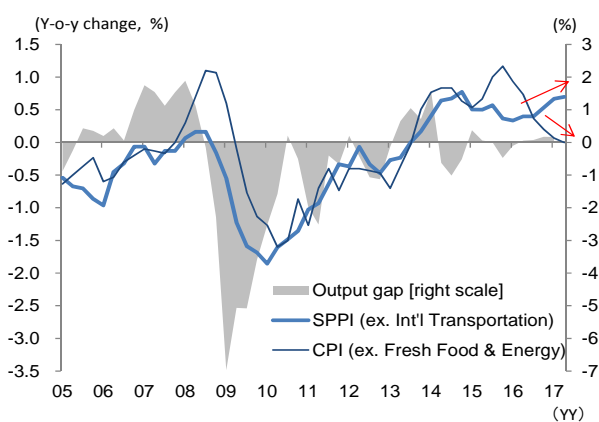
## The stable rise of the Services Producer Price Index (SPPI)

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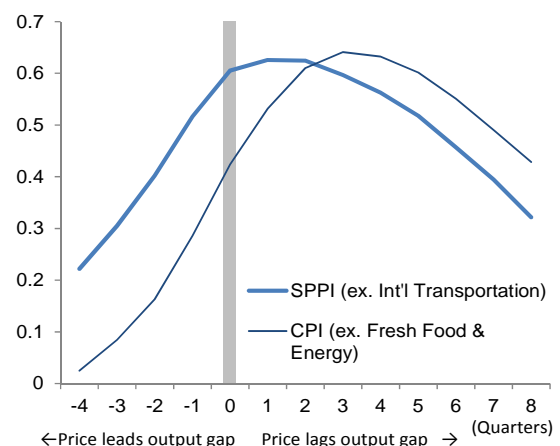
In May, the Consumer Price Index (all items excluding fresh food and energy, hereafter the “CPI”) recorded a year-on-year (y-o-y) change of 0.0% for the second month in row, revealing that the underlying trend of prices is still sluggish. On the other hand, the less closely-watched Services Producer Price Index (all items excluding international transportation, hereafter the “SPPI”), which measures movements in prices of service products in the corporate sector (B-to-B service products), portrays a different picture. The SPPI has remained in positive territory for 44 consecutive months up to May, and its pace of increase remains unabated thus far (**Chart 1**). This presents a sharp contrast with the y-o-y change of the CPI which has been falling since 2016.

The year 2015, which saw a temporary surge of the CPI, was a period when the yen depreciated at a faster pace due to the additional monetary easing in October 2014, while the output gap was not necessarily improving. This suggests a strong possibility that the divergence of the CPI and the SPPI stems from the difference in sensitivity to business cycles. Indeed, the data shows that the SPPI has a higher simultaneous correlation with the output gap than the CPI (**Chart 2**). Upward pressures will most likely continue to mount upon the SPPI as long as the Japanese economy continues to recover at a gradual pace. For the stable rise of the CPI, the rise of B-to-B prices would need to spread to B-to-C (business to customer) prices.

[ Chart 1: The SPPI and the CPI ]



[ Chart 2: The output gap ]



Note: The output gap is based upon estimates by the MHRI. Both the SPPI and the CPI exclude consumption tax. In Chart 1, data for 2017Q2 is the April-May average. In Chart 2, the sample period is from 1990Q2 to 2017Q1.  
Source: Made by MHRI based upon the Ministry of Internal Affairs and Communications, *Consumer Price Index*, Bank of Japan, *Services Producer Price Index*.

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