

The Japanese economy: topic of the month

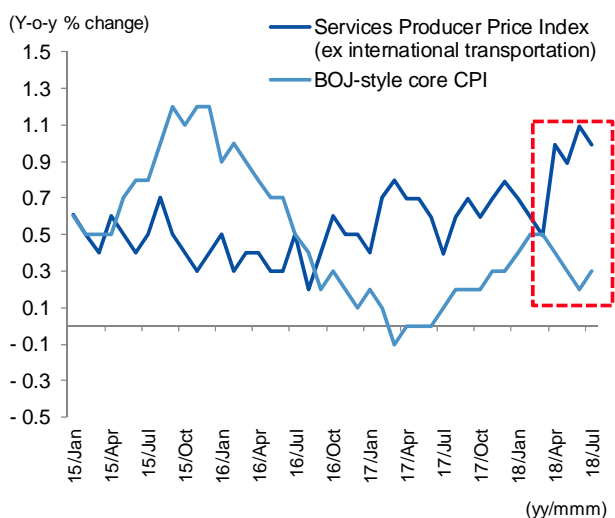
Trends in household thrift consciousness and pass-on of costs to prices by corporate enterprises

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Reflecting the rise of raw material and labor costs, there is an ongoing trend among corporate enterprises to pass on costs such as delivery costs to transaction prices. In fact, the services producer price index (SPPI) (all items, excluding international transportation), indicating business-to-business (B2B) price trends, rose +1.0% y-o-y in July, indicating an acceleration of the pace of rise (**Chart 1**).

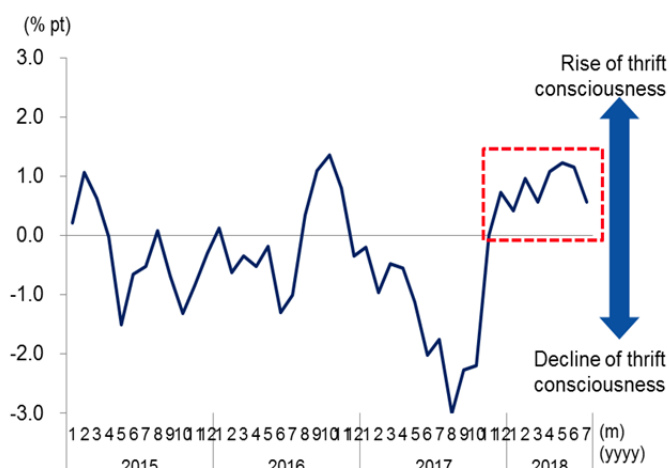
In contrast, the rise of consumer prices is continuing to stagnate. The BOJ-style core CPI (general, ex fresh food and energy) stood at +0.3% y-o-y in July, suggesting that the pass-on of costs from businesses to customers (B2C) is still inadequate.

[Chart 1: The Services Producer Price Index (SPPI) and the BOJ-style core CPI]



Note: Excluding the impact of the consumption tax hike
 Source: Made by MHRI based upon Ministry of Internal Affairs and Communications, *Consumer Price Index*, Bank of Japan, *Services Producer Price Index*

[Chart 2: Household thrift consciousness (3-months backward moving average)]



Note: The "thrift consciousness index" is made by comparing the 137 items common to both the CPI and the *Family Income and Expenditure Survey* and weighting the difference in y-o-y growth rates of the CPI and average unit price by the CPI (2015 base)
 Source: Made by MHRI based upon Ministry of Internal Affairs and Communications, *Consumer Price Index*, *Family Income and Expenditure Survey*

The divergence of B2B and B2C price trends may stem from a deep-rooted thrift-consciousness among households. The MHRI's "thrift consciousness index" has been rising since the autumn of 2017 to 2018 (**Chart 2**). Reflecting the rise of household thrift consciousness, corporate enterprises may be keeping a cautious stance toward raising prices due to concerns regarding the alienation of customers.

At the moment, fresh vegetable prices are soaring due to the summer heat wave, and energy prices (such as gasoline prices) are also following an uptrend reflecting the rise of crude oil prices. The rise of household thrift consciousness will likely persist for some time. The progress of the pass-on of costs from businesses to customers should be moderate, and the growth of the BOJ-style core CPI will most likely be weighed down.

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