

April “Tokyo core CPI” Consumption Tax Hike Passed through as Anticipated

1. What is “Tokyo CPI”?

In Japan, Statistics Bureau, Ministry of Affairs and Internal Communications releases the Consumer Price Index (CPI) on Friday of the week including the 26th of each month. The index figures of the preceding month for the whole country and the preliminary figures of the current month for the wards of Tokyo are released.

The latter is known as “Tokyo CPI” which is treated as a leading indicator of nationwide CPI (the former) by the market. This CPI has a characteristics that weighting of non-taxed items are much heavier than that of the nationwide CPI. In the nationwide CPI, non-taxed items have a weighting of 27%, whereas in the Tokyo CPI, the weighting is 32%, i.e., around one-third of the total. This is because housing rent, which is by far the heaviest of the non-taxed items, has a heavier weight in Tokyo (24%) than in the nationwide index (19%).

2. Latest Trend

April “Tokyo core CPI” (excluding fresh food) released on the 25th rose significantly to 2.7% y-o-y from the previous month’s rise of 1.0% y-o-y. The difference of ratio of increase compared to that of the previous month was on a par with the impact of the consumer tax hike (1.7 ppt) estimated by the BOJ. Examination of the item-by-item details suggests that food (excluding fresh food) and clothes & footwear could have passed through impact of the consumer tax hike to the price of goods. Meanwhile, some items such as bedding, domestic non-durable goods and underwear, rose higher y-o-y than that of the impact of consumer tax hike which implies a possible existence of the opportunistic price hike. As a whole, however, it seems that the price movement of April was similar to that of March since the impact of consumption tax hike was passed through to the price of goods for the majority of the items with only a few exceptions of the opportunistic price hike.

Tokyo core CPI (excluding fresh food) Y-o-Y

	March	April	% of Increase from the previous month
Introduction of 3% Consumption tax in April 1989	+ 1.7%	+ 2.8%	+ 1.1%
Consumption tax hike from 3% to 5% in April 1997	+ 0.1%	+ 1.4%	+ 1.3%
Latest Consumption tax hike from 5% to 8%	+ 1.0%	+ 2.7%	+ 1.7%

(Source) Produced by SMAM based on the data of Bloomberg

3. Future Outlook

Before the CPI announcement, there was a publication of monthly monitoring (from April 11 to April 17) on the status of pass-through of the consumption tax hike by Ministry of Economy, Trade and Industry. According to this survey, 79.4% of corporation answered “the impact of the consumer tax hike was fully passed through to the price of goods”. Also, according to the Consumer Affairs Agency’s price monitoring survey (from April 4 to April 8), the ratio of price change of all items (total 40 items) excluding the impact of the consumption tax hike was +0.1% compared to that of the previous survey (from March 7 to March 11). These surveys imply that concern over the deterioration of corporate profits caused by the cost increase through the consumption tax hike etc. is not imminent.

The BOJ estimates the ratio of price increase excluding the consumption tax hike for year 2014 to be +1.3% (Median) and that for year 2015 +1.9% (Median). Currently, ratio of price increase seems to be in line with that of the BOJ’s estimation, however, the market’s anticipation towards the additional monetary easing will continue to exist because of the concern that the consumption tax hike could possibly weaken private consumption and deteriorate domestic business environment.

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