

“July Nationwide Consumer Price Index – Support to the recovery of consumer expenditure is a key”

July Nationwide Consumer Price Index

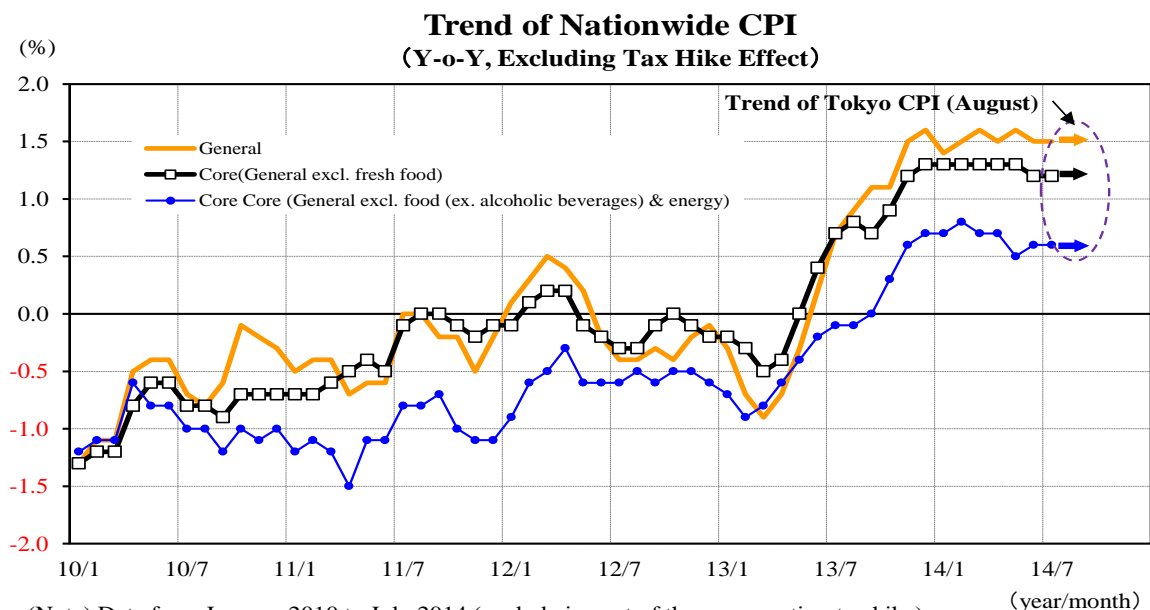
On Aug 29, the Ministry of Internal Affairs & Communications released July Nationwide Consumer Price Index (hereafter “Nationwide CPI”) and August Tokyo Ward-area Consumer Price Index (mid of month preliminary figure, hereafter “Tokyo CPI”). Key figures are shown as below. Also, the CPI figures excluding consumption tax hike effect are shown in parenthesis on my calculation.

	General		Core		Core Core	
Nationwide CPI (July)	+ 3.4%	(+ 1.5%)	+ 3.3%	(+ 1.2%)	+ 2.3%	(+ 0.6%)
June	+3.6%	(+1.5%)	+3.3%	(+1.2%)	+2.3%	(+0.6%)
Tokyo CPI (August)	+ 2.8%	(+ 0.9%)	+ 2.7%	(+ 0.9%)	+ 2.1%	(+ 0.5%)
July	+2.8%	(+0.9%)	+2.7%	(+0.9%)	+2.1%	(+0.5%)

(Note) 1. Y-o-Y changes. Figures in parenthesis are CPI excluding tax hike effect calculated by the author.

2. Core: General index excluding fresh food Core Core: General Index excluding food (except alcoholic beverages) & energy.
(Source) SMAM, based on the Ministry of Internal Affairs & Communications data.

July Nationwide Core CPI rose 3.3% y-o-y, same as in June. Taking a close look at key component items, you will find Fuel, light & water charges slowed to +7.2% (y-o-y) from June (+8.1% y-o-y), however, this was offset by acceleration in Food (excluding fresh items), Transportation & communication and Culture & recreation. With August Tokyo CPI figure keeping the same pace as that of July, the Nationwide Core CPI is expected to maintain its rising pace at a lower half of 1% for the time being.



(Note) Data from January 2010 to July 2014 (exclude impact of the consumption tax hike)

(Source) SMAM, based on the Ministry of Internal Affairs & Communications data



According to the Family Income and Expenditure Survey announced on the same day, the real consumption expenditure of July declined 5.9% y-o-y, which was worse than in June (-3.0% y-o-y). Although we are anticipating private consumption recovery after this summer, this weak

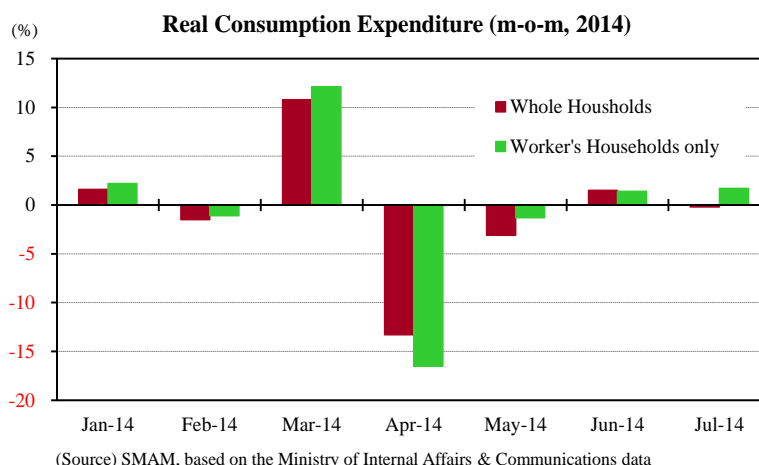


figure gave me a slight concern. However, looking in more detail, “Workers’ households with Two-or-more-family members”, July figure (-3.6% y-o-y) improved from June (-4.5% y-o-y). In addition, real consumption of worker’s households increased by 1.7% (increase of two consecutive months), while expenditure of whole households in July declined by 0.2% (seasonally adjusted, m-o-m). I think this indicates that the consumption by the household of working generation is solid, supported by the increased wages and bonus.

Future Outlook & Focus

The key for CPI’s evolution going forward should be whether or not the private consumption recovery is maintained, led by the expenditure of “Worker’s households” as strength of domestic demand such as private consumption eventually influences the CPI. To keep a positive trend of CPI, I believe it is essential to maintain people’s expectation for the continuation of the improvement of the employment/wage environment. I think the Japanese government needs to use both monetary and fiscal measures persistently to stimulate the economy, not just waiting for the materialisation of wages and bonus increase in the private sector.

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