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# Mizuho Economic Outlook & Analysis

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December 22, 2021

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## *Impact of the commodity market price hike on the Japanese economy*

*Deterioration in the terms of trade will place a 10 trillion-yen burden on companies and households*

### < Summary >

- ◆ Import costs of raw materials surged by roughly 10 trillion yen driven by the commodity market rally. Based on the input-output structure, 7 trillion yen of this cost increase is apportioned to companies and 3 trillion yen to households. As a result, personal consumption and capital investment will decrease and push down the Japan's GDP by 0.2%.
- ◆ In the manufacturing sector, the basic materials industry that includes metal and chemical products and the energy industry that provides gas/heat supply and electricity will be particularly affected, and in the processing industry, transport equipment will be hard hit. In the non-manufacturing sector, transport and postal services are expected to see their earnings decline.
- ◆ Price increases centering on food and energy will slash households' real disposable income by about 3 trillion yen. The rising cost of daily necessities will likely make more people close their wallets, and spending on such items as personal effects, clothes, and footwear as well as social expenses is anticipated to decrease.

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## **1. Introduction – The commodity market rally stands in the way of Japan’s economic recovery**

The Japanese economy has failed to emerge from the negative impact of the COVID-19 crisis despite the approach of the 2021 yearend. The GDP growth rate for the July to September period (the second preliminary) dipped by -0.9% (-3.6% on an annualized basis) from the previous quarter, marking a substantial decline. In addition to the spread of the Delta variant, as the demand for products and services that help people improve their home experience, such as consumer electronics, came to an end, and auto production declined on the back of semiconductor supply constraints, personal consumption, capital investment and exports were negatively affected. As a result, the Japanese economy remained stagnant in the July to September period.<sup>1</sup>

On the other hand, positive signs emerged for the Japanese economy after October. Progress in the vaccination rate and the relaxation of activity restraints have increased human mobility since October, and personal consumption has been buoyant recently centering on services that involve close personal contact (such as eating out and accommodation services). Another positive factor is the expectation that automobile production, which has declined substantially, will recover as the bottleneck in parts supply due to the spread of the coronavirus in Southeast Asia will likely ease. Unless confirmed cases of the Omicron variant surge and the number of critical patients increases, Japan’s economy in the latter half of this fiscal year, including the October to December and January to March periods, will most likely continue to show strong growth.<sup>2</sup>

But the booming global commodity market has become a great concern recently. Although the successful vaccination rollout has fueled economic activities, supply has not been able to meet the growth in demand, causing the international commodity market that includes crude oil and food to take off. In addition to strong goods demand in the United States, supply factors such as the rising manufacturing cost of aluminum and soaring crop prices due to La Nina have also extended the commodity market’s rally. As Japan heavily depends on imported materials, a steep rise in commodity prices leads to higher import costs (worsening the terms of trade). Import prices in November (JPY base) jumped by +44.3% year-on-year, hitting a record high since January 1981. A substantial increase in raw material costs can exert downward pressure not only on corporate earnings but also on capital investment and wages. Furthermore, a rise in the consumer price index such as higher energy and food prices runs the risk of dampening personal consumption.

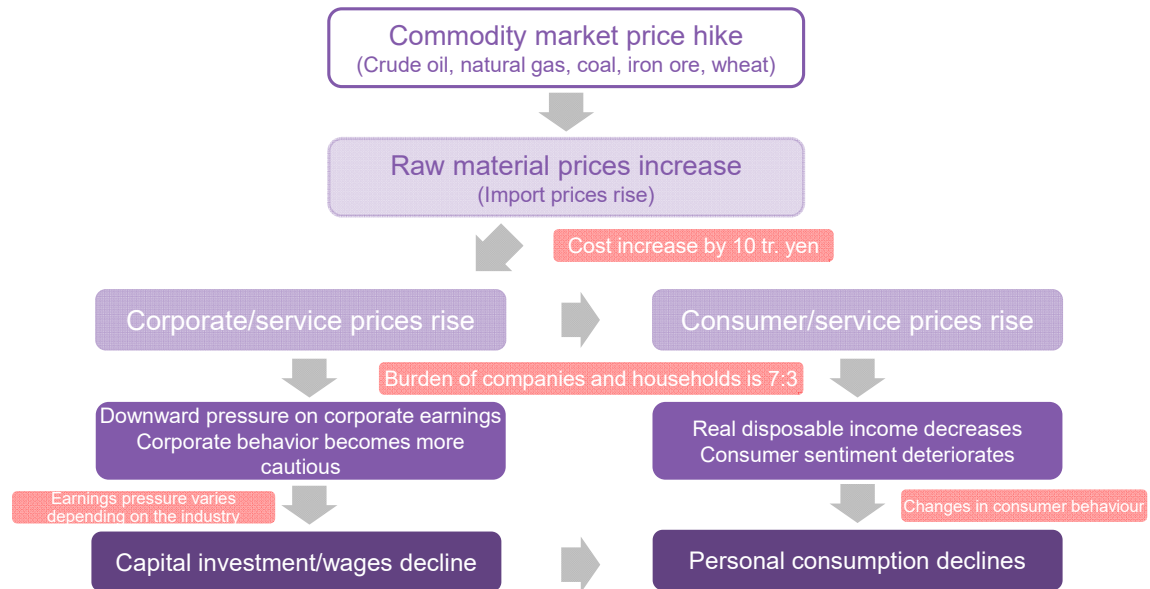
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<sup>1</sup> Refer to Sakai (2021) for details.

<sup>2</sup> At present, we expect the Japanese economy to continue growing by about +7% on an annualized basis in the October to December period and the January to March period. Refer to Mizuho Research & Technologies (2021) for details on the outlook of the Japanese economy.

**Chart 1** depicts the overall impact of rising commodity prices on the Japanese economy. In this report, we examine how the steep rise in the commodity market may affect companies and households in line with the flow chart presented in **Chart 1**.

**Chart 1: Impact of rising commodity market prices on the economy (overall picture)**



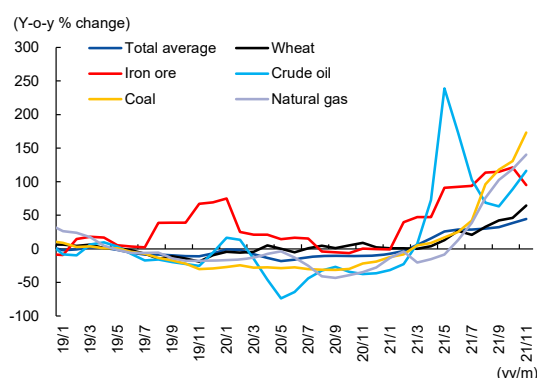
Source: Made by MHRT.

## 2. Import costs of raw materials rose by 10 trillion yen: 70% apportioned to companies and 30% to households

Deterioration in the terms of trade driven by the commodity market price hike will increase the burden borne by Japanese citizens through income outflow to overseas. This section describes how much burden will be placed on companies and households by looking at the development of import prices.

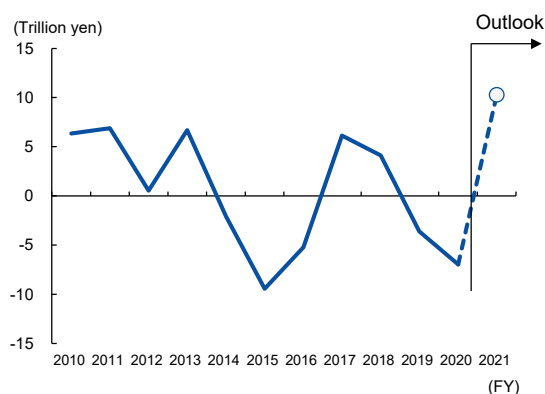
Looking at the import price trends of major items up until now, the import prices of crude oil rose year-on-year by +116.0% in November, coal by +173.1%, natural gas by +140.1%, iron ore by +95.0%, and wheat by +64.5%, all significant increases (**Chart 2**). We estimated Japan’s raw materials import value in FY2021 (food, raw materials, mineral fuels, chemical products, textile products, metal and metal products), and the outcome revealed the value increasing by 10 trillion from the previous year based on the price factor (**Chart 3**). This means income worth 10 trillion yen will flow out from Japan to overseas (Japanese people’s real purchasing power will decline by this amount), and the burden will be shared by businesses and households.

**Chart 2: Import prices(Year-on-year change)**



Source: Made by MHRT based upon the Bank of Japan, *Corporate Goods Price Index*.

**Chart 3: Raw material import value (Year-on-year change)**



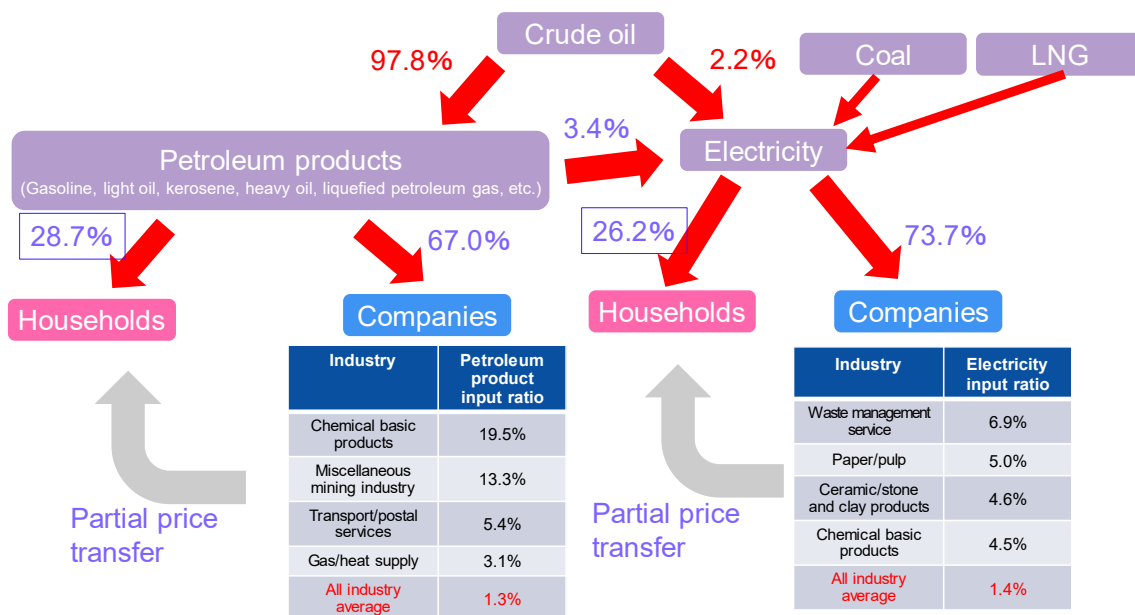
Note: We extracted the price factor. FY2021 data are based on MHRT's estimates.  
Source: Made by MHRT based upon the Ministry of Finance, *Trade Statistics*.

Next, we examine the apportionment of this burden between companies and households by referring to the example of the input-output structure of crude oil (petroleum products) and electricity (**Chart 4**). According to the “2018 Updated Input-Output Table” compiled by the Ministry of Economy, Trade and Industry, 97.8% of crude oil is input to the petroleum product manufacturing industry, which produces gasoline, light oil, kerosene, etc., and 2.2% to the electricity supply industry. Of the petroleum products produced from crude oil, 28.7% are directly purchased by households, 67.0% are input to chemical basic products manufacturing and other industries and transport/postal activities, and 3.4% to the electricity supply industry. As for electricity derived by inputting 2.2% of crude oil and 3.4% of petroleum products, 26.2% is purchased by households and 73.3% by firms belonging to such industries as waste treatment and paper/pulp, ceramic/stone, and clay products manufacturing.

For petroleum products and electricity directly purchased by households, sales prices are expected to almost fully reflect the rise in crude oil prices. Also, as for other products that are finally purchased by households through the corporate sector, sales prices will partially reflect the commodity price hikes (but the impact of the price increase will be limited due to the low percentage of petroleum products input), and as a result, 30% of the cost increase will likely be shouldered by households and 70% by businesses.<sup>3</sup> If rising commodity prices increase import costs by 10 trillion yen, our estimate holds that 3 trillion yen will be apportioned to households and 7 trillion yen to businesses.

<sup>3</sup> Likewise, 55% of coal and 66.6% of natural gas will be input to electricity, and in addition to 30% of electricity directly purchased by households, the burden of a partial price transfer through the corporate sector will also be placed on households.

**Chart 4: Input and output structure of crude oil (petroleum products) and electricity**



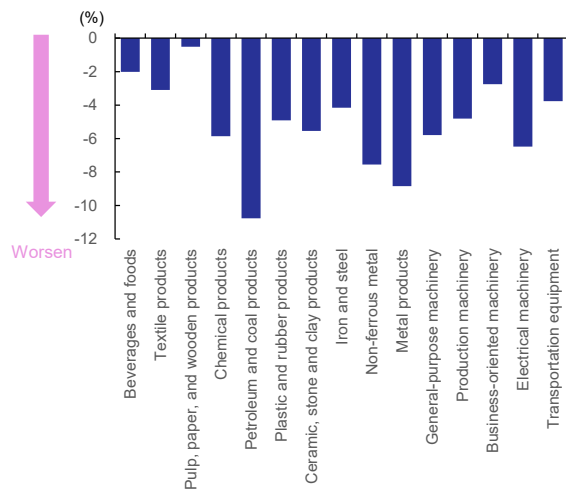
Source: Made by MHRT based upon the Ministry of Economy, Trade and Industry, 2018 Updated Input-Output Table.

### 3. Impact on companies – Deteriorating terms of trade deal a heavy blow to the earnings of basic materials/energy-related and transport equipment industries

As described in the previous section, the impact of the commodity market price hike is heavier on the corporate sector, but the degree of impact will vary depending on the business. In this section, we estimate how corporate earnings will be negatively affected after confirming the degree of impact the deteriorating terms of trade may have on various industries.

In the Bank of Japan’s “Input-Output Price Index of the Manufacturing Industry by Sector,” if we look at the comparison of the July to September period from the past average of “output price/input price,” the decline of the basic materials sectors, including petroleum/coal products, metal products and non-ferrous metals, stands out (Chart 5). We can confirm that sectors heavily dependent on raw material imports are being affected by worsening terms of trade. For the non-manufacturing industry, if we look at the change in the “output prices DI – input prices DI” (average of actual and forecast figures in the December survey) in the Bank of Japan’s “Short-Term Economic Survey of Enterprises in Japan (*Tankan*),” sectors such as construction and transport/postal activities show a substantial decline on the back of rising construction material and crude oil prices (Chart 6). Furthermore, Business to Consumer (BtoC) related sectors (lodging and eating/drinking services and services for individuals) that are susceptible to weakening personal consumption, face difficulty in transferring the cost increases to final prices, and seem to suffer a deterioration in the terms of trade.

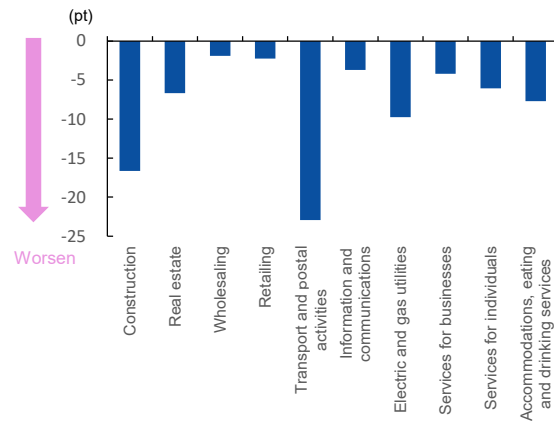
**Chart 5: Changes in “output price/input price” (manufacturing industry)**



Note: The bar chart shows the changes in the “output price index/input price index” of July to September period 2021 from the past 5-year average. The greater the negative range, the worse the terms of trade become.

Source: Made by MHRT based upon the Bank of Japan, *Input-Output Price Index of the Manufacturing Industry by Sector*.

**Chart 6: Changes in “output prices DI – input prices DI” (non-manufacturing industry)**



Note: The bar chart shows the changes in actual and forecast DIs in the December survey from the past 5-year average. The greater the negative range, the greater the negative impact on corporate earnings.

Source: Made by MHRT based upon the Bank of Japan, *Short-Term Economic Survey of Enterprises in Japan (Tankan)*.

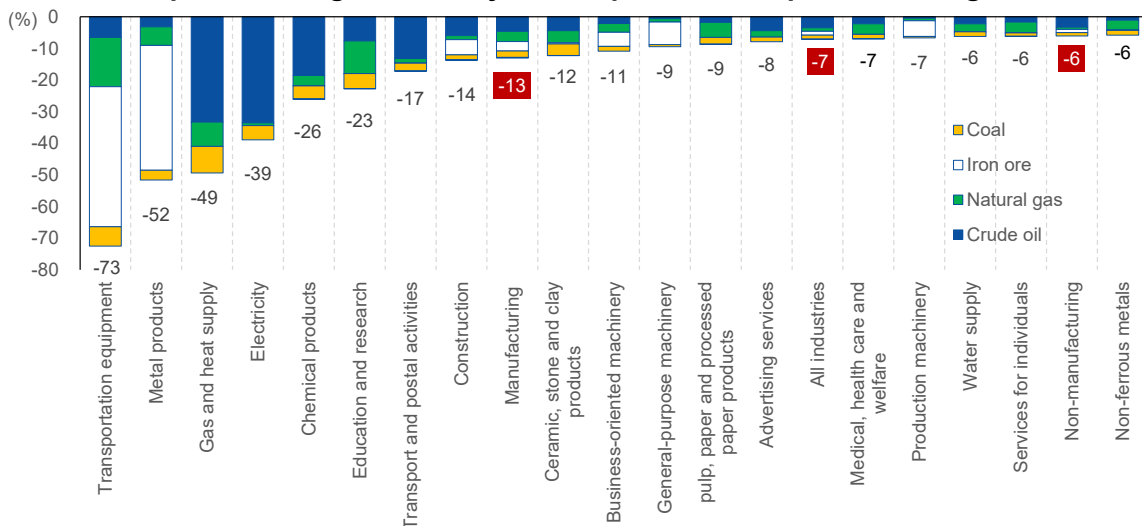
Next, we estimate how the commodity market price hike would impact corporate earnings. Here, we referred to Matsumoto and Ichikawa (2011) and used the “Updated Input-Output Table” compiled by the Ministry of Economy, Trade and Industry to calculate the impact of price increases of the five major import items mentioned earlier (crude oil, natural gas, iron ore, coal, and wheat) on the earnings of each industry. More specifically, we first calculated the price transfer rate based on the trend of input and output prices<sup>4</sup> and came up with the shock value, which is defined as the import value increase of each item as a result of price increases in FY2021, and estimated the decline rate of operating surplus (equivalent to operating profit of domestic firms) using this shock value. The outcome is depicted in **Chart 7**, showing the operating surplus declined by roughly -7% for all industries (-13% for manufacturers and -6% for non-manufacturers). If we calculate the lost value based on the operating surplus in 2018, the base year of the Input-Output Table, the value stands at about 6.5 trillion yen, coinciding with the cost increase allocated to companies (around 7 trillion yen) confirmed in Section 2.

<sup>4</sup> We calculated the price transfer rate (rate of output price increase against input price increase) that takes into account the intermediary input rate. While price transfer advanced in part of the basic materials industry, such as iron and steel and pulp/paper/wooden products, the overall price transfer rate stood at around 50%. For the non-manufacturing industry, we assumed the price transfer rate of about 50%, excluding the electricity and gas/heat supply industries considered to have achieved a full price transfer, by referring to Matsumoto and Ichikawa (2011).

We can see analyzing price hikes by commodity item that higher crude oil prices have a greater impact than other items. This is because crude oil exerts not only a direct impact on the prices of raw materials used to produce petroleum/coal products and electricity supply, but also an indirect impact on a wide variety of industries through production/transportation cost hikes driven by rising electricity prices and fuel costs including gasoline.

If we analyze the impact by industry, the basic materials industry, including metal products and chemical products, and the energy industry for gas/heat and electricity supply are more affected. For the processing industry, the negative impact on earnings for transport equipment is notable due largely to the price jump of iron ore (transport equipment includes shipbuilding, a high-volume user of iron and steel products, and the price transfer rate is relatively high for the iron and steel industry). For the non-manufacturing sector, the overall impact remained limited compared to the manufacturing industry, but earnings were placed under downward pressure for transport and postal activities, education/research (schools and various research institutes), construction, and services for individuals. The Economy Watchers Survey in November carried many comments expressing concerns over higher raw material prices as follows: “high fuel prices are pressuring distribution business operators” (transport); “as we cannot transfer the cost increase of steel materials and outsourced processing onto sales prices, we expect our profitability to deteriorate in the future” (metal products manufacturer); and “the rise in crude oil prices is also a concern” (chemical industry).

**Chart 7: Impact of rising commodity market prices on corporate earnings in FY2021**



Note: We estimated the shock value using the import value increase driven by each item’s price hike in FY2021. The operating surplus (equivalent to operating profit in Japan) that serves as the denominator is the actual value of FY2018.

Source: Made by MHRT based upon the Ministry of Industry, Economy and Trade, 2018 Updated Input-Output Table.



#### **4. Impact on households – Disposable income to decline by 3 trillion yen. Price increase of daily necessities will prompt cost savings**

In this section, we analyze the impact of the commodity market rally on households. As the negative impact of COVID-19 lingers on, it is inevitable that the pace of wage recovery will remain slow centering on services that involve personal contact (for example, the winter bonus paid per private-sector employee is anticipated to increase by only +0.8% year-on-year according to Shimanaka, 2021), and the rise in energy and food prices fueled by higher commodity prices is pushing down households' real disposable income. We estimated how the surge in energy and food prices driven by the recent commodity market price hike will affect consumer prices (all items less fresh food) in FY2021, and the outcome was an increase of +1.0%Pt. (Our estimate employs measures such as the elasticity of energy price on crude oil price as used in Minami, 2021.) The result is a reduction in real disposable income by -3.0 trillion yen though a rise in the deflator (**Chart 8**). The cost increase for households due to deteriorating terms of trade surfaces as a decrease in household income, and the above mentioned -3.0 trillion-yen reduction means that about 30% of the 10 trillion-yen import cost increase will be carried by the household sector.

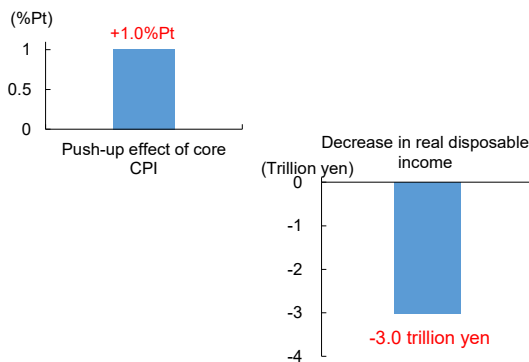
If we look at the movement of the consumer price index by purchase frequency, the prices of “frequently purchased items” (items with an annual purchase frequency of more than 15 times, accounting for about 10% of the CPI) such as gasoline and pork are surging (**Chart 9**).<sup>5</sup> The price increase of daily necessities with high purchase frequency can make people more wary of rising prices. According to December’s “Commodity Price Monitor Survey” compiled by the Consumer Affairs Agency, the share of people who anticipate their spending to increase (heavier burden) driven by rising prices of daily necessities rose to the level recorded in 2019 when the consumption tax was revised upward (**Chart 10**). Price increases actually felt by consumers prompt them to cut spending and weigh down on personal consumption (refer to Sakai et al. (2018) for examples). The Economy Watchers Survey issued in November features many comments suggesting concerns over the deteriorating mindset of consumers, such as “gasoline, kerosene, and food price hikes are leading customers to tighten their purse strings” (supermarket); “since the prices of crude oil and daily food items are rising one after another, households tend to cut back on spending and reduce personal consumption” (convenience store); and “successive price increases of foods have undermined customers’ purchase appetite, and we are scrambling for customers with our competitors. The situation is very tough” (supermarket).

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<sup>5</sup> **Chart 9** depicts Japan’s consumer price index (CPI) by product purchase frequency in October, but if we look at the CPI of Tokyo’s wards in November, some products showed strong growth, with gasoline growing by +28.2% year-on-year, carbonated drink by +14.9%, dressed bread by +5.6%, and eggs by +4.1%.

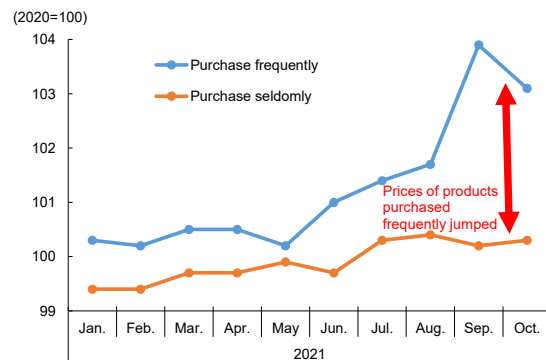
To study how the household spending behavior changes along with the rising commodity market prices, we examined what happened when the commodity market skyrocketed in the past. During the 2008 inflationary phase, referred to as the commodity super cycle, energy prices jumped by +9% from the previous year on a CPI-annual-average basis. According to the nominal household expenditure in 2008, spending related to energy (“fuel, light and water charges” including electricity and gas expenses and “transportation and communication costs” including gasoline) increased driven by surging energy prices (**Chart 11**). On the other hand, as a result of energy-related spending placing a strain on household budgets, spending on “personal effects,” “clothes and footwear,” and “social expenses” declined, pushing overall spending into negative territory. In the light of this past example, we expect that in future inflationary phases, nonessential and non-urgent consumption will most likely be slashed and overall personal consumption will fall.

**Chart 8: Burden placed on households by rising commodity prices**



Note: We estimated the push-up effect of the consumer price index (excluding fresh food) due to the commodity market price hike in FY2021 and contribution to expected real disposable income.  
 Source: Made by MHRT based upon the Ministry of Internal Affairs and Communications, *Consumer Price Index*, and the Cabinet Office, *National Accounts*.

**Chart 9: Consumer price index by product purchase frequency**



Note: “Purchase frequently” means products purchased more than 15 times a year, and “Purchase seldomly” means products purchased less than 0.5 times a year.  
 Source: Made by MHRT based upon the Ministry of Internal Affairs and Communications, *Consumer Price Index*.

**5. Impact on GDP – Personal consumption will fall by -0.3%, capital investment by -0.4%, and GDP by -0.2%**

In this section, we examine the impact of the commodity market price increase on GDP based on discussions in the previous sections.

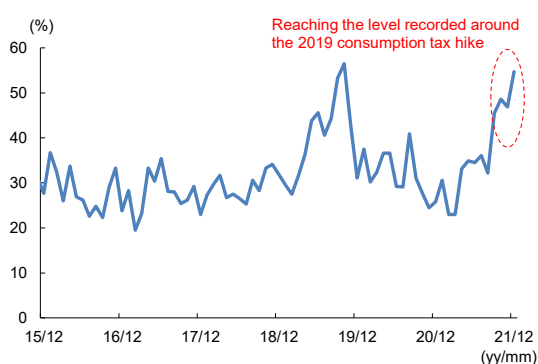
As mentioned earlier, the price increase of commodities, including oil, natural gas and coal, caused the raw material import value to grow by about 10 trillion yen, becoming a burden for Japan (in the form of income outflow to overseas). If 70% of this burden belongs to companies, and corporate earnings are reduced by around 7 trillion yen, capital

investment will be slashed by -0.4% from the latter half of FY2021 through the first half of FY2022 (this takes into account the time lag between corporate earnings deterioration and actual capital investment decline), an estimate based on Kawabata (2021) that calculated the elasticity of capital investment on cash flow.

Furthermore, if the remaining 30% belongs to households, and real disposable income is cut by about 3 trillion yen, personal consumption will likewise be reduced by -0.3% from the latter half of FY2021 through the first half of FY2022 (consumer prices are expected to rise during this period centering on energy and food items) assuming the marginal propensity to consume of 0.25. (In the scenario in which price transfer does not advance as assumed in this report, it may look like a positive factor for household spending. But this will in turn generate a downward pressure on corporate earnings and ultimately on wages, which will eventually push down household spending. So, there is no major impact on our estimate with this scenario.)

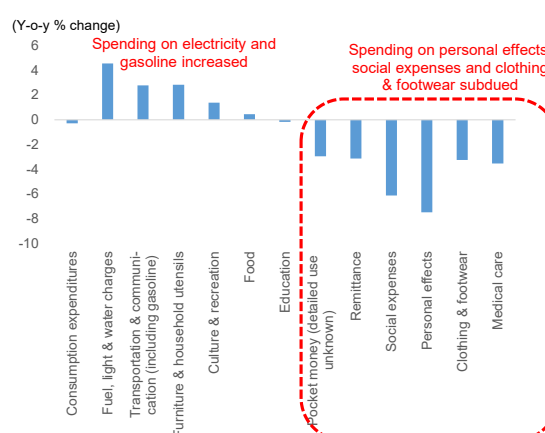
As a result of reduced capital investment and personal consumption, Japan's GDP is expected to shrink by -0.2% (-1.2 trillion yen in terms of value) from the second half of FY2021 through the first half of FY2022 (**Chart 12**). According to the calculation by Nakanobu (2021), although cash/coupons distributed to households will buoy GDP by approximately 0.2%, the commodity market rally is expected to negate this policy effect. The commodity market price hike is believed to stand in the way of Japan's economic recovery after the latter half of FY2021.

**Chart 10: Share of households that expect spending to increase due to rising prices**



Note: The chart shows the percentage of respondents who selected "because I think the prices of goods and services we consume daily will go up due to higher inflation" when asked the reason for increasing household spending in the coming three months compared to the previous year.  
Source: Made by MHRT based upon the Consumer Affairs Agency, *Commodity Price Monitor Survey*.

**Chart 11: Household spending at the time of rising commodity prices (2008, year-on-year change)**



Source: Made by MHRT based upon the Ministry of Internal Affairs and Communications, *Family Income and Expenditure Survey*.

## 6. Contraction of real purchasing power lowers the “temperature” of the economy. Deflationary pressure rising contrary to CPI movement

Here, we want to explore the impact of the commodity market price hike from a price perspective. As confirmed in Section 4, rising commodity prices will raise the core CPI by about +1.0%Pt. As Minami (2021) estimated, core CPI growth is expected to accelerate in the future and even surpass 1% in the first half of 2022 when downward pressure due to lower communication charges eases. (**Chart 13**) (The CPI is expected to rise to over 2% in the first half of 2022 if we exclude the extraordinary factors of lower communication charges as well as lower lodging charges with the resumption of the Go To Travel Campaign.<sup>6</sup>) As we expect the Upper House election to be held next summer, rising inflation may draw people’s attention politically just as it did in the United States. This will most probably lead to discussions on household support measures as an economic package.<sup>7</sup> We consider the headline CPI will continue to be a hot topic for media coverage in the immediate future.

However, we need to bear in mind that today’s cost-push inflation unaccompanied by rising wages cannot be regarded as a “thermometer of the economy.” If we focus on the GDP deflator, another representative “thermometer of the economy,” we see a different picture of the Japanese economy.

Worsening terms of trade driven by a rising import deflator leads to a lower GDP deflator. In the past commodity super cycle phase (2004–2008), the GDP deflator hovered in negative territory (**Chart 14**). Driven by the recent commodity price surge, the GDP deflator dropped as low as -1.2% year-on-year in the July to September period and is expected to stay negative even after the October to December period (at present, we estimate the deflator to go even lower to -1.6% year-on-year in the October to December period and remain in negative territory at -0.3% in the January to March period<sup>8</sup>). Even if the core CPI shows strong growth, the Japanese people’s real purchasing power is deteriorating from the perspective of the GDP deflator, and Japan’s economy is rather suffering from the strong deflationary pressure (we can say that the temperature of the economy has been cooling down). We need to monitor the economic development through

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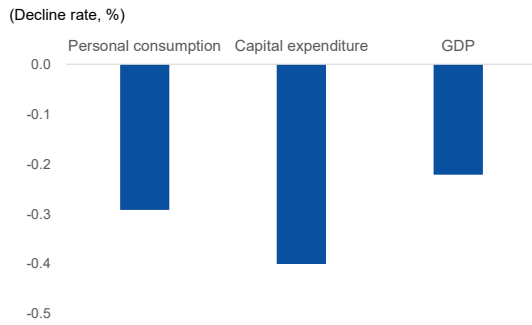
<sup>6</sup> In the April to June period of 2022, core CPI is expected to go down by around -0.2%Pt year-on-year due to the impact of lower lodging charges and by -0.5%Pt affected by the remaining communication charges decline.

<sup>7</sup> We believe this will not have a major impact on monetary policy. As will be explained later, in view of cost-push inflation not being sustainable, the Bank of Japan will likely be prudent in its judgement. The government is expected to launch such economic measures as curbing the energy price surge and distributing cash.

<sup>8</sup> As we calculated the FY2021 trade gain (change in real income due to changes in the terms of trade) in the GDP statistics using the formula of “Trade gain = (nominal net export/(weighted average of export/import deflator) – real net export” based on the forecast figures of Mizuho Research and Technologies (2021), the outcome was a decrease of -10 trillion yen from the preceding fiscal year.

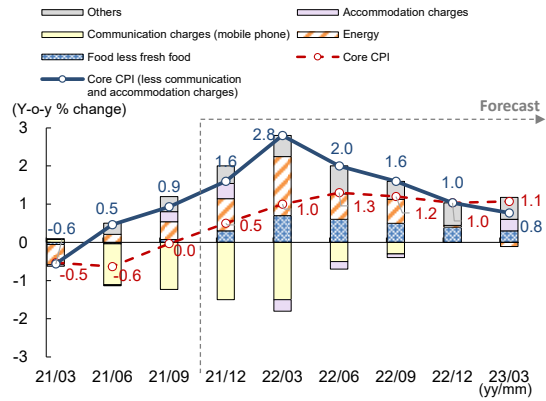
these price indicators when discussing trends of the Japanese economy and economic policy.

**Chart 12: Impact on GDP and other indicators**



Note: We estimated the impact on capital investment using the elasticity of capital investment on cash flow and the impact on personal consumption by using the marginal propensity to consume (0.25).  
Source: Made by MHRT.

**Chart 13: Outlook of core CPI**



Source: Made by MHRT based upon the Ministry of Internal Affairs and Communications.

## 7. Conclusion – The price increase rate will eventually approach 0%. The real issue is how to break free from the low wage/low inflation norm

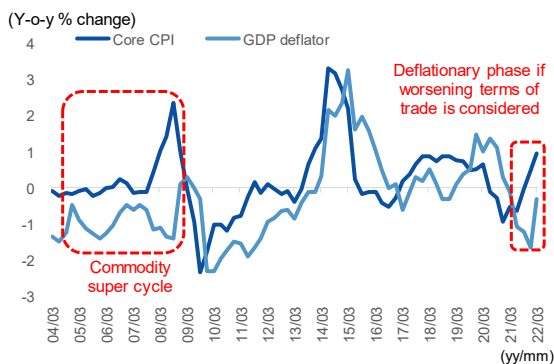
We have so far discussed the impact of the commodity market price hike on the Japanese economy. Cost-push inflation with no wage increase is not considered sustainable, and thus we believe the impact described in the previous sections will be short-lived. In 2008, the core CPI once rose to over 2% reflecting the commodity market rally, but it began to decline subsequently. Crude oil prices have been falling lately affected by media coverage of the Omicron variant, and we hold that prices will continue to decline at a gradual pace amid a more relaxed supply and demand situation as OPEC Plus continues to ease production cuts. In the latter half of 2022, global goods demand is expected to slow, and so is the commodity market, and this will most likely lead to a lower inflation rate.

In the last section, we want to offer a medium-term discussion point hidden behind the commodity market rally. The root problem is the ongoing weakness of household purchasing power without rising wages (and companies cannot raise wages as corporate earnings will continue to be suppressed due to their inability to transfer rising costs onto selling prices) and the resultant contracted equilibrium situation Japan has fallen into. Even before the COVID-19 crisis, personal consumption during the economic expansionary phase under Abenomics grew by only 0.3% on an annualized basis, and many people could not fully feel the economic recovery. And the main cause of sluggish personal consumption

is the stagnant growth of wages, as seen in the annual average growth rate of nominal wage per worker of around +0.4% during the economic expansion phase under Abenomics (2013–2018). Given the ongoing weakness in household purchasing power and sluggish demand, companies cannot embark on raising prices, and as a result, inflation in Japan remains low.

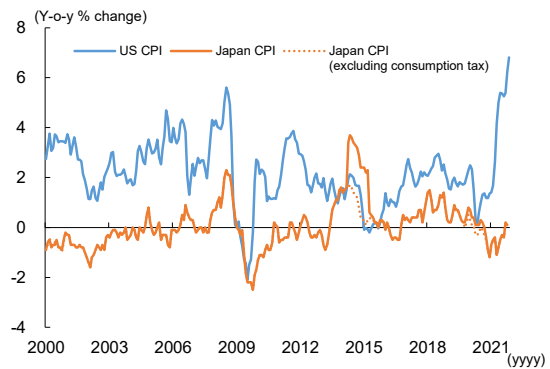
Even though the major topics in the US market today are whether to advance the tapering of quantitative easing and when to raise the policy interest rates with inflation accelerating, inflation in Japan continues to hover within a relatively low range (although from a historical viewpoint, the inflation rate in Japan has been rising) (**Chart 15**). The primary factor behind Japan’s low inflation rate is stagnant personal consumption. Compared to the United States where consumer spending is buoyed centering on goods, the sluggishness of Japan’s personal consumption stands out (**Chart 16**). Even when faced with a soaring commodity market, Japanese firms continue to be cautious about raising selling prices out of fear of losing customers given the weakness of personal consumption. As mentioned earlier, the larger share of the burden placed on companies due to the terms of trade worsening stems from this circumstance.

**Chart 14: Core CPI and GDP deflator**



Source: Made by MHRT based upon the Cabinet Office and the Ministry of Internal Affairs and Communications.

**Chart 15: Inflation in Japan and the US (CPI, all items)**

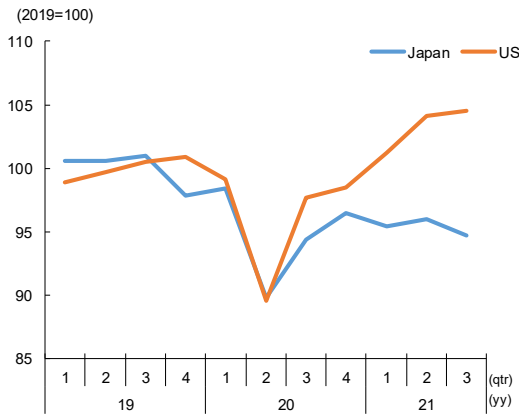


Source: Made by MHRT based upon the United States Department of Labor and the Ministry of Internal Affairs and Communications.

In the retail industry, it has been reported that large retailers are leaving the prices of food items sold under their private brands (PB) unchanged. Convenience stores and supermarkets are adopting the strategy to maintain the same prices in order to retain existing customers, and manufacturers seem to be following suit. This price competition may be restraining overall price increases. Also, according to media coverage, some food makers have reduced the product volume while keeping prices the same, thus “virtually

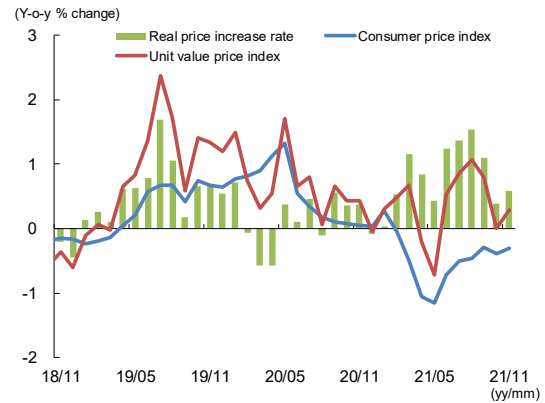
raising prices.” We used the SRI-Hitotsubashi consumer purchase indices that represent the household purchase value and prices at retail outlets, including supermarkets and convenience stores, to examine the movement of the unit value price index reflecting the replacement of new/old products and the change in product volume, and the consumer price index that only reflects the change in prices. The movement suggests that while the latter index has moved into negative territory, the former index continues to be in positive territory, suggesting that companies are “virtually raising prices” (Chart 17). We can see that companies are taking great pains over price management.

**Chart 16: Real personal consumption in Japan and the US**



Note: The chart depicts real personal consumption based on GDP.  
 Source: Made by MHRT based upon the Cabinet Office, *Quarterly Estimates of GDP*, and the US Department of Commerce.

**Chart 17: Real price increase rate**



Note: We calculated the real price increase rate by deducting the growth rate of the SRI-Hitotsubashi consumer price index from the growth rate of the SRI-Hitotsubashi unit value price index.  
 Source: Made by MHRT based upon the SRI-Hitotsubashi consumer purchase indices.

In Japan, it has become a “(social) norm” not to raise prices and wages among consumers and workers (Tokuda et al., 2017). The combination of weak household purchasing power and intensified price competition makes it hard for companies to raise prices, and companies cannot raise wages either from fear of a future economic downturn, thereby creating a vicious circle. Although prices may fluctuate temporarily due to such factors as changeable crude oil prices and communication costs, the structure now in place seems difficult to change. In the medium-term, we forecast that the inflation rate will approach 0% (or a little higher than 0%).

The real issue the Japanese economy needs to address is how to overcome the “low wage and low inflation norm,” and Japan has learned after the Abenomics era that this issue cannot be solved by monetary policy alone. The Kishida administration vows to achieve a “virtuous cycle of growth and distribution,” an idea which we fully agree with. But with a view to realizing this goal, we believe it is essential to “invest in humans,” in

other words, extensively support the development of people's skillsets. The government should enhance policy support to enable workers, including non-permanent staff, to receive recurrent education and obtain skills to move (change jobs) into high growth sectors. This will lead to wage increases and encourage personal consumption on a sustainable basis. As the workers' market value (wage) goes up and their purchasing power improves, we believe there will be more company managers who expect consumption demand to grow, and it is at this stage where we can first envisage Japan eventually breaking free from the "low wage and low inflation norm."



## Reference

**Refer to the original Japanese report by clicking the URL below for the reference material.**  
<https://www.mizuho-ir.co.jp/publication/report/2021/pdf/insight-jp211222.pdf>