

## Is the Trend in “Prices” still Steady?

The Consumer Price Index (CPI) announced by the Ministry of Internal Affairs and Communications is used to follow the trend of “Prices” which can be defined as the movement of the prices of goods and services. Recent growth of CPI has been sluggish as the August figure (excluding volatile fresh foods) turned negative for the first time in 2 years and 4 months (YoY), since the unprecedented monetary easing by BOJ in April 2013. BOJ aims for a 2% YoY growth of the CPI by the first half of FY2016.

### Point 1

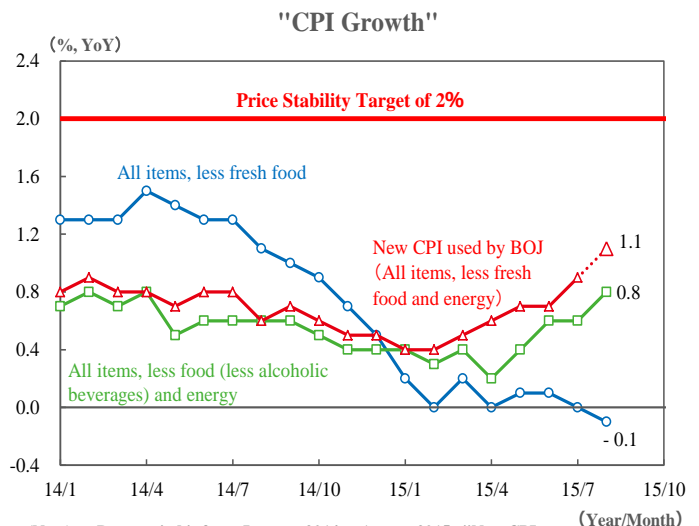
**August CPI (All items, less fresh food) was negative 0.1% YoY**  
**Prices excluding energy are on a rising trend**

- Prices of goods which are closely related to our daily life, such as food items like bread and chocolate and clothing which is mostly imported, are rising. The prices of these goods are rising because of the price increase in raw materials and imported goods due to a weaker yen. This is causing a gap with the consumer sentiment since the CPI was pushed down to negative territory by the lower crude oil price.
- If we look by items, in addition to the fall of Electricity by -5.1% YoY and Town Gas by -9.5% YoY, CPI was pushed down by the sharp fall of Petroleum (-17.8% YoY). The consumer sentiment on the rise in “prices” can be explained as the CPI growth rate, excluding these “energy related items”, rising in a stable manner.

### Point 2

**Moderate price rise continues**  
**Is it difficult to meet the objective in the first half of FY2016?**

- In the July “Monthly Report of Recent Economic and Financial Developments”, BOJ announced a new index they independently calculated by excluding Energy from the CPI (All items, less fresh food). Although the August index is not disclosed yet, on September 25<sup>th</sup>, BOJ’s Governor Kuroda stated “about +1.1% excluding Energy” which is likely that they have estimated this new index.
- CPI excluding Energy such as BOJ’s new index has been growing slowly but steadily since March this year towards BOJ’s 2% target. However, BOJ’s policy target still remains to be CPI (All items, less fresh food) including energy.



(Note) Data period is from January 2014 to August 2015. "New CPI used by BOJ" for August 2015 is the BOJ Governor's estimate stated on September 25th.

(Source) SMAM, based on Bloomberg L.P. data.

■ **Will there be a revision of the CPI outlook in the “Outlook for Economic Activities and Prices” on October 30<sup>th</sup>?**

As BOJ’s Governor Kuroda stated, it may be difficult to achieve a 2% YoY growth of CPI by the first half of FY2016 depending on the crude oil price trend. It is important to see whether there is a revision of the CPI outlook in the “Outlook for Economic Activities and Prices” on October 30<sup>th</sup> when the second October BOJ Monetary Policy Meeting will be held (first one will be held from the 6<sup>th</sup> to 7<sup>th</sup>).

■ **Additional monetary easing may start as early as BOJ’s October Monetary Policy Meeting**

Expectations on economic stimulus measures by supplementary budget and BOJ’s additional monetary easing are getting higher as the economy is in a standstill lately and the growth of “prices”, the target of monetary policy, is slow. BOJ may announce an additional easing at the October Monetary Policy Meeting.

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