Monetary stimulus

Japan grocery index challenges gloom

ROBIN HARDING — TOKYO

A Japanese price index is showing a surge in inflation amid renewed gloom about the country's economic prospects — but its creator still thinks the Bank of Japan will have to expand its record-breaking monetary stimulus.

Tsutomu Watanabe, a University of Tokyo professor and creator of the UTokyo daily price index, said there had been a change in the behaviour of Japanese companies this year.

"From April, stores were aggressive in raising prices," said Prof Watanabe. "I was kind of sceptical in the early phase of May to June, but it seems this is more durable than last year's experience."

Prof Watanabe's comments are important because Haruhiko Kuroda, governor of the Bank of Japan, has taken to highlighting the index in speeches as he tries to fight the perception that his massive monetary stimulus has failed to break Japan out of deflation.

The daily price index was recording year-on-year deflation of about 0.5 per cent for most of 2014 and into 2015, but from the spring it started to accelerate sharply and is now showing year-on-year inflation of about 1.4 per cent.

That contrasts with the headline consumer price index, which picked up after the Abenomics stimulus began in 2013 but has fallen back to zero because of the plunge in oil prices and a consumption tax rise in 2014.

Prof Watanabe's index is one of a new breed, such as the US Billion Prices Project, which use online data collection to track prices every day. The UTokyo index uses scanner data from about 300 supermarkets across Japan, which provides information on the item and quantity purchased, as well as the price.

1.4%	0.5%
Year-on-year inflation recorded by the UTokyo index	Deflation year on year recorded by the index for most of last year

If one brand of shampoo goes on sale for a week, the UTokyo index captures not just the change in price but the shift in consumer demand towards that brand.

"I sometimes talk to the managers of the supermarkets," said Prof Watanabe. "What they said last year is they were suffering from the depreciation of the yen but they were not able to increase prices because demand was too weak. They used temporary sales to increase custom instead.

"This year, in particular, they say they are confident about the strength of demand and that is why they started to increase prices."

Prof Watanabe has set up a company, called Nowcast, to commercialise the index. A subsidiary of the Nikkei newspaper — which is purchasing the Financial Times — is a Nowcast investor.

The divergence with the official CPI index is largely down to the fact that the UTokyo index only captures items sold in supermarkets — it tracks the groceries section of the official figures fairly closely.

The rise in grocery prices is at the heart of Mr Kuroda's argument that inflationary pressure at home is rising and BoJ policy is on track, even if the headline figures are held back by the slump in the price of imported commodities.

"This is cost-push inflation," said Prof Watanabe. "It's driven by the depreciation of the yen [which raises the cost of imported goods] but it also reflects demand."