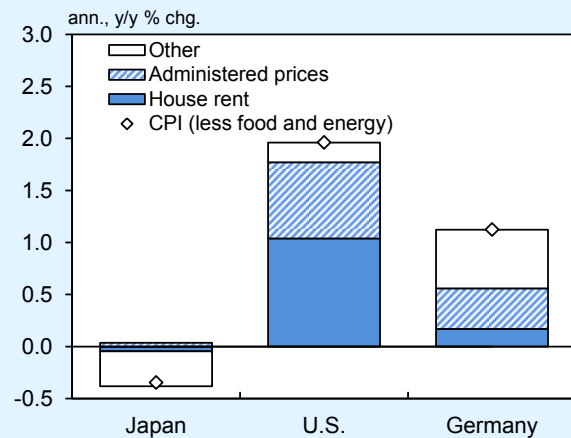


**(Box 6) Developments in Administered Prices and Housing Rent**

Comparing the year-on-year rates of change in the CPI excluding food and energy for fiscal 2017 in Japan, the United States, and Germany shows that a large contributing factor to the fact that Japan had the lowest inflation rate was the low rate of increase in administered prices and housing rent (Charts B6-2 and B6-3). The fact that the rates of increase in administered prices and housing rent in Japan are relatively low by international comparison also can be observed over the long term (Chart B6-1). Incidentally, when imputed rent is included, the total share of housing rent and administered prices accounts for almost 50 percent of the CPI excluding food and energy, and thus developments in these prices have a major impact on the CPI.

There are various specific factors underlying the low rates of increase in administered prices and housing rent. For instance, administered prices do not sufficiently reflect operating expenses and depreciation costs of equipment partly because government subsidies for supplementing revenues are provided to public enterprises.<sup>50</sup> Housing rent has been influenced by an increase in construction starts of housing for rent in recent years, partly due to tax saving. Rent figures of housing for rent are also applied to imputed rent of owned houses, of which supply has not necessarily increased in recent years. In addition, how the effects of deterioration of housing for rent

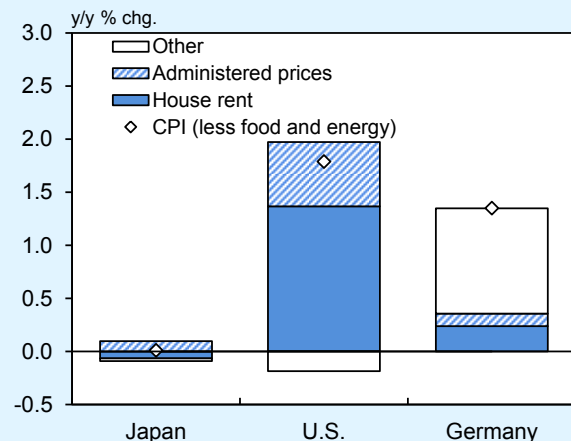
**Chart B6-1: FY 2001-2016 Average <Contribution of Each Component>**



Sources: Ministry of Internal Affairs and Communications; Haver; Dexter, A., M. Levi, and B. Nault (2002), "Sticky Prices: The Impact of Regulation," *Journal of Monetary Economics*.

Notes: 1. Administered prices in the U.S. consist of items classified as "regulated" by Dexter et al. (2002).  
 2. Administered prices in Germany are those in the Harmonized Index of Consumer Prices (HICP).  
 3. Figures for Japan are adjusted for changes in the consumption tax rate.

**Chart B6-2: FY 2017 <Contribution of Each Component>**



Sources: Ministry of Internal Affairs and Communications; Haver; Dexter, A., M. Levi, and B. Nault (2002), "Sticky Prices: The Impact of Regulation," *Journal of Monetary Economics*.

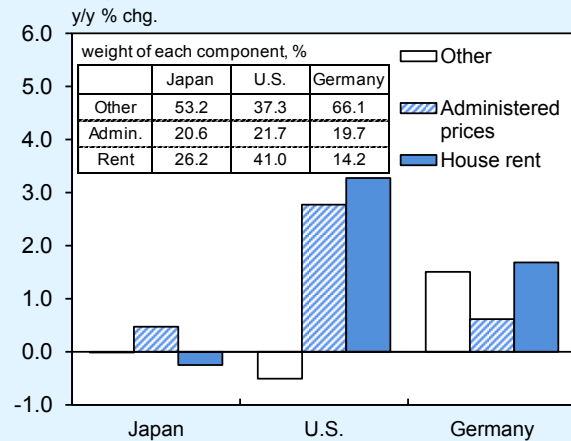
Note: The definitions of administered prices in the U.S. and Germany are the same as in Chart B6-1.

<sup>50</sup> Also see Box 4 in the July 2016 Outlook Report on various idiosyncratic factors behind the sluggish rise in administered prices and housing rent in Japan compared to in Europe and the United States.

due to aging should be reflected in the CPI has been pointed out as an issue.<sup>51</sup>

Another factor is that households are reluctant to accept rises in housing rent and administered prices given the low actual inflation rate and inflation expectations, since developments in general prices are often used for reference in negotiations to raise housing rent and in processes to set administered prices.<sup>52</sup>

**Chart B6-3: FY 2017 <% Chg. of Each Component>**



Sources: Ministry of Internal Affairs and Communications; Haver; Dexter, A., M. Levi, and B. Nault (2002), "Sticky Prices: The Impact of Regulation," *Journal of Monetary Economics*.

Notes: 1. The definitions of administered prices in the U.S. and Germany are the same as in Chart B6-1.  
2. The weight of each component is the share in the CPI (less food and energy).

<sup>51</sup> The Ministry of Internal Affairs and Communications has been examining quality adjustments for housing rent in the CPI with the aim of releasing a reference index at the next rebasing of price indexes to the base year 2020. Based on the paper "Changes in Rent of Rented Housing over Time -- A Study on the Quality Adjustment for House Rent in the CPI" released by the Price Statistics Office in the Statistics Bureau of the Ministry of Internal Affairs and Communications in July 2018 (available only in Japanese), the deterioration of housing for rent due to aging pushed down the CPI (all items) by 0.1 to 0.2 percentage point per year on average from 2014 to 2017.

<sup>52</sup> Box 3 in the October 2015 Outlook Report shows that, while housing rent and administered prices respond little to changes in the output gap, they are significantly influenced by past inflation rates.