

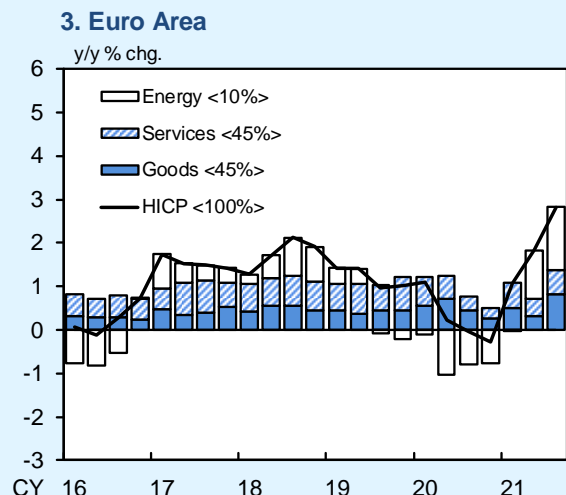
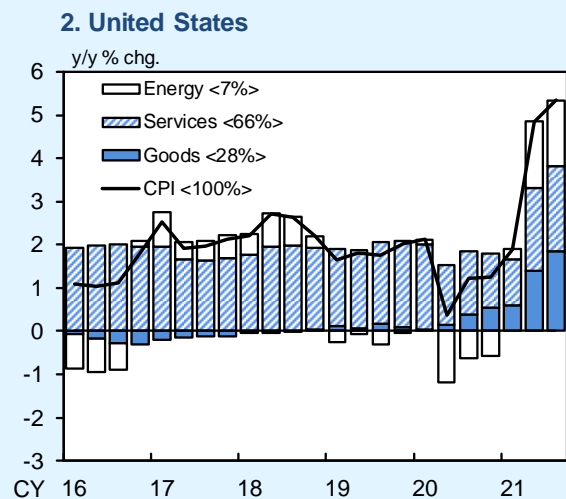
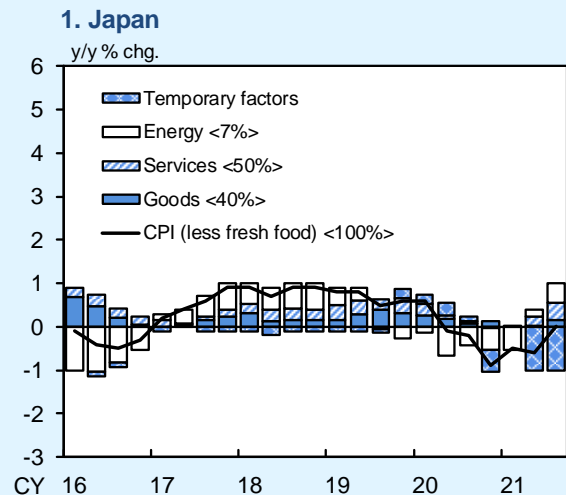
**(Box 4) Comparison of Inflation Rates in Japan, the United States, and Europe**

The year-on-year rate of change in Japan's CPI recently has increased slightly in positive territory when excluding temporary factors such as the effects of the reduction in mobile phone charges (Chart 44). That said, the consumer price inflation rates in the United States and Europe have risen rapidly of late, and the gap in the inflation rates between Japan and those economies has widened. This box outlines the basic facts about which categories or items contribute to such a difference in the inflation rates between Japan, the United States, and Europe.

When classifying consumer price items of the inflation rates in Japan, the United States, and Europe on the same basis as much as possible and comparing their year-on-year rates of change in terms of broad categories such as goods and services, the following differences can be confirmed (Chart B4-1).<sup>26</sup> That is, there has been a disparity between Japan and those economies in the year-on-year rates of change -- mainly in services prices, including administered prices -- since before the outbreak of COVID-19. In addition, since the pandemic began, the paces of increase in goods prices have diverged significantly between Japan and the United

<sup>26</sup> To compare consumer price developments in Japan, the United States, and Europe under conditions that are as similar as possible, this box uses classifications of consumer price items that are somewhat different from the widely used ones. For details on the classifications, see the notes to each chart in this box. In addition, it should be noted that figures for European consumer prices examined in this box include the effects of changes in the value-added tax rates.

**Chart B4-1: Developments in Consumer Prices in Japan, the United States, and Europe**

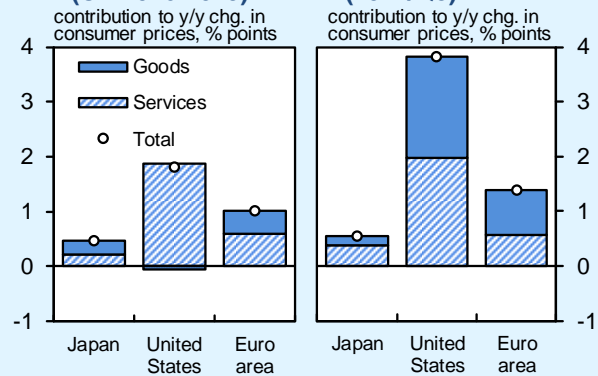


Sources: Ministry of Internal Affairs and Communications; Haver.  
Notes: 1. Figures for services include administered prices.  
2. Figures for temporary factors for Japan are staff estimates and consist of mobile phone charges and the effects of the consumption tax hike, policies concerning the provision of free education, and the "Go To Travel" campaign, which covers a portion of domestic travel expenses.  
3. Figures in angular brackets show the share of each component. Figures for temporary factors for Japan include mobile phone charges (weight: 3%).

States.<sup>27</sup> The comparison also shows that the year-on-year rate of increase in energy prices has been higher recently in the United States and Europe than has that in Japan. This seems to mainly reflect the differences by country and region in (1) the weight of gasoline prices -- which are subject to large short-term fluctuations -- in the respective consumer price indexes and (2) the structure of electricity rate systems. Next, when comparing developments in the indexes excluding energy prices (for Japan, temporary factors such as the effects of the reduction in mobile phone charges are also excluded) before and after the outbreak of COVID-19, the positive contribution of goods prices to the CPI has expanded clearly in the United States for the latest period (the July-September quarter of 2021) relative to the pre-pandemic period (the 2016-2019 average), and this has made the gap in the inflation rate with Japan wider (Chart B4-2). On the other hand, when excluding such factors as energy prices, the gap between Japan and Europe for the latest period has not widened much compared with that in the pre-pandemic period.

As mentioned earlier, developments in goods prices show a clear contrast between Japan and the United States. Taking a detailed look at the developments for the latest period by item, the positive contribution of automobile prices to goods prices is particularly large in the case of the United States, which can be partly explained by a surge in demand for durable goods such as

**Chart B4-2: Developments in Consumer Prices Before and After the Outbreak of COVID-19**  
**1. Before the Pandemic (CY 2016-2019)**    **2. Latest Period (2021/Q3)**



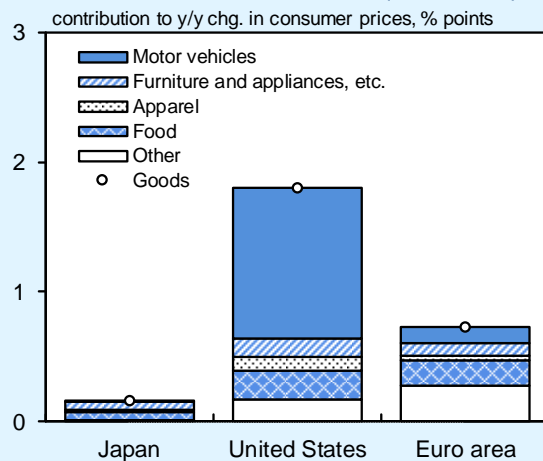
Sources: Ministry of Internal Affairs and Communications; Haver.  
 Notes: 1. Figures for Japan are the contribution to changes in the CPI (less fresh food).  
 Figures for the United States are the contribution to changes in the overall CPI.  
 Figures for the euro area are the contribution to changes in the overall HICP.  
 2. Figures for Japan are staff estimates and exclude mobile phone charges and the effects of the consumption tax hike, policies concerning the provision of free education, and the "Go To Travel" campaign, which covers a portion of domestic travel expenses.  
 3. Figures exclude energy. Figures for services include administered prices.

<sup>27</sup> In addition, as described in the main text of this Outlook Report, the year-on-year rate of change in Japan's CPI has been pushed down temporarily to a significant degree by the reduction in mobile phone charges.

automobiles (Chart B4-3).<sup>28</sup> Moreover, prices of goods other than automobiles -- such as food, furniture, household electrical appliances, and apparel -- in the United States show a higher rate of increase for the latest period compared with those in Japan (Charts B4-3 and B4-4).

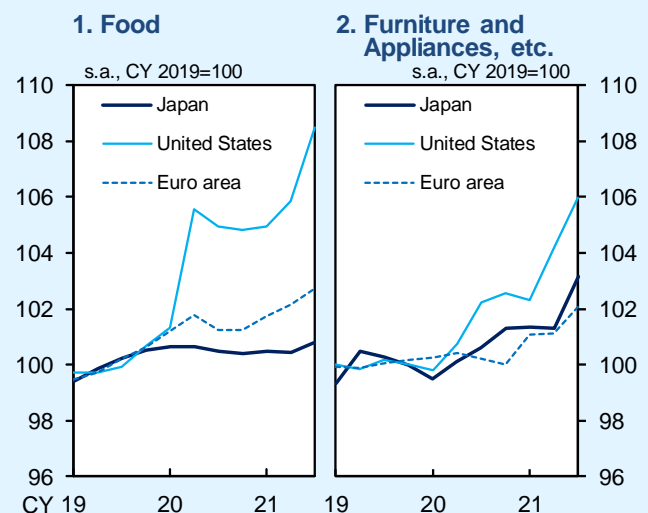
As a background to the widened gap in the inflation rates between the United States and Japan -- mainly of goods prices -- since the COVID-19 pandemic, there are differences in the following aspects in particular: (1) the strength in goods demand, mainly reflecting the diverging paces of recovery in economic activity; (2) supply-side conditions against the background of the difference in such factors as labor market structures; and (3) firms' price-setting stance in response to short-term changes in the supply-demand conditions.<sup>29</sup> Regarding the price-setting stance of Japanese firms, it is necessary to closely monitor whether their stance will change during a future recovery in economic activity and a resultant state of sustained moderate inflation, while taking into account the experiences of the United States and Europe.

**Chart B4-3: Goods Prices (2021/Q3)**



Sources: Ministry of Internal Affairs and Communications; Haver.  
 Notes: 1. Figures for Japan are the contribution to changes in the CPI (less fresh food).  
 Figures for the United States are the contribution to changes in the overall CPI.  
 Figures for the euro area are the contribution to changes in the overall HICP.  
 2. Figures for Japan exclude the effects of the consumption tax hike.  
 3. Figures for goods exclude fresh food, eating out, and energy. Figures for furniture and appliances, etc. exclude communication and entertainment appliances.

**Chart B4-4: Developments in Goods Prices**



Sources: Ministry of Internal Affairs and Communications; Haver.  
 Notes: 1. Figures for Japan exclude the effects of the consumption tax hike.  
 2. Figures for food exclude fresh food and eating out. Figures for furniture and appliances, etc. exclude communication and entertainment appliances.

<sup>28</sup> The increase in U.S. goods prices has been particularly remarkable for used car prices, which tend to fluctuate. In this respect, automobile prices in Japan's CPI are measured in terms of new car prices.

<sup>29</sup> Box 3 in the July 2021 Outlook Report explains the differences between Japan, the United States, and Europe in terms of the degree of tightness in the supply-demand conditions for products and firms' stance toward raising their product prices.