

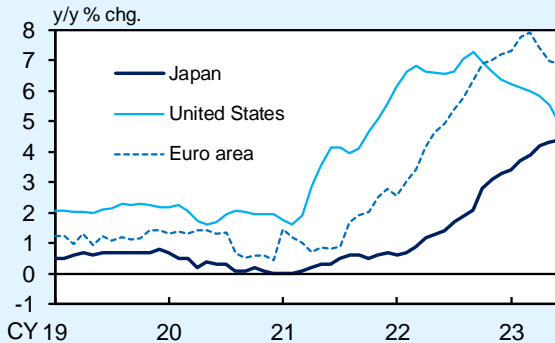
**(Box 3) Features of and Reasons for Price Rises in the Current Phase:  
Comparison with the United States and Europe**

The year-on-year rates of change in the CPI have risen globally in the current phase (Chart B3-1). Against this background, this box provides an overview of the differences in price rises in the United States, Europe, and Japan.

First, the distribution of the year-on-year rates of change in prices for individual items constituting the CPI is examined in order to gain a detailed understanding of the features of recent price rises. The number of items for which prices have risen significantly by more than 5 percent has increased in all three economies, and it is these items that have been driving the overall increase in the price indexes. This is in line with the fact that many core indicators of the CPI, such as the trimmed mean, have been at high levels in all three economies. On the other hand, a closer look at the price change distribution shows that, in Japan, the peak of the distribution has remained around 0 percent, mainly due to services, although the height of the peak is now much lower than before. In contrast, in the United States and Europe, the peak of the distribution itself has clearly shifted to the right as prices of a wide range of goods and services have risen (Chart B3-2).

The reason why the peak of the price change distribution for Japan has not shifted, unlike in the United States and Europe, is that, in Japan, price increases have largely been due to upward pressure of costs led by a rise in import prices,

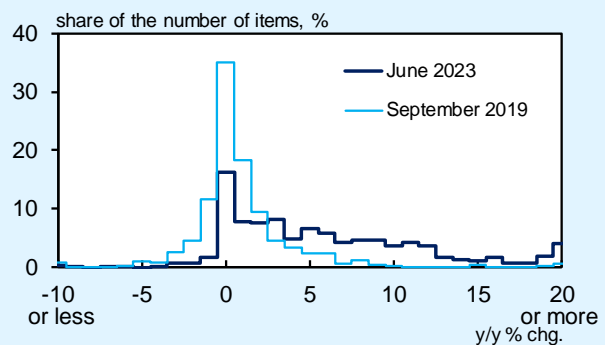
**Chart B3-1: Consumer Prices in Japan, the United States, and Europe**



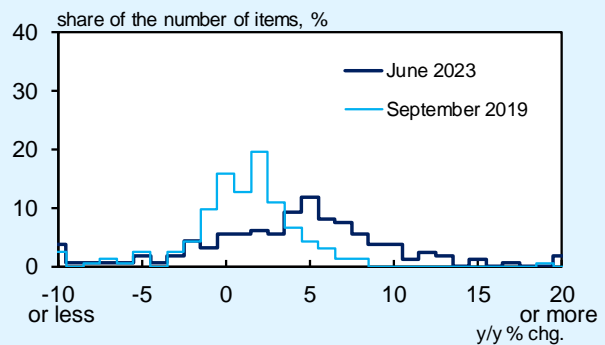
Sources: Ministry of Internal Affairs and Communications; BLS; Eurostat.  
Note: Figures for Japan are staff estimates based on the CPI (less fresh food and energy) and exclude mobile phone charges and the effects of the consumption tax hike, policies concerning the provision of free education, and travel subsidy programs. Those for the United States and the euro area are for the CPI (less energy).

**Chart B3-2: Price Change Distribution (CPI)**

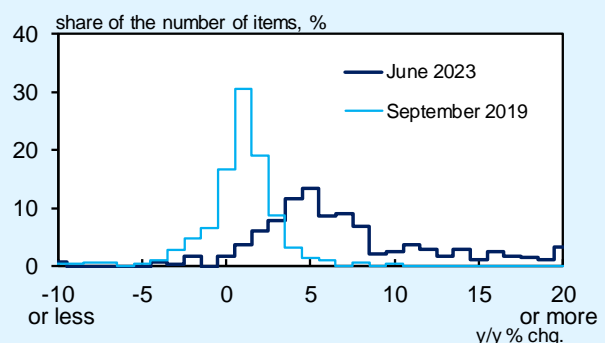
**1. Japan**



**2. United States**



**3. Euro Area**



Sources: Ministry of Internal Affairs and Communications; BLS; Eurostat.  
Note: Figures for Japan are for the CPI (less fresh food and energy). Those for the United States and the euro area are for the CPI (less energy).

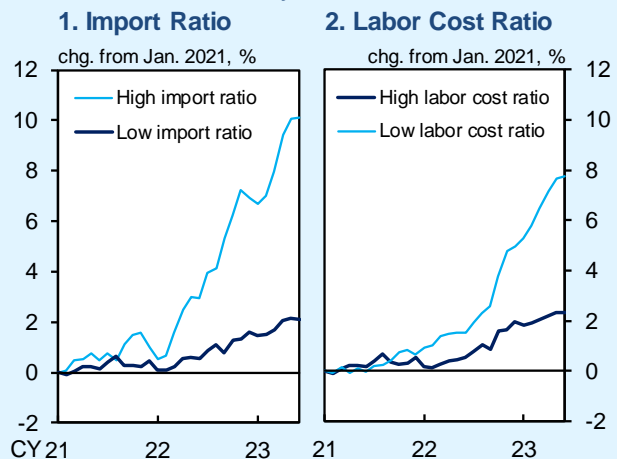
and the rates of increase have been limited for items that are not very susceptible to import prices. In fact, the pace of increase in prices has been relatively slower for CPI items with a low ratio of import costs to total costs (Chart B3-3 [1]). In addition, items with a high ratio of labor costs to total costs have seen a relatively slower increase in their prices (Chart B3-3 [2]).

These are also borne out by developments in the GDP deflator, which measures the change in prices of value-added in the domestic economy and excludes the impact of changes in import prices (Chart B3-4). Decomposing changes in the GDP deflator into changes in labor costs per unit of real GDP (unit labor costs), corporate profits per unit of real GDP (unit profits), and other factors shows that, (1) in the United States, prices have been pushed up by rapidly growing unit labor costs due to large increases in wages, while (2) in Europe, prices have been pushed up by a relatively large increase in unit profits as firms have increased their profit margins.

In Japan, on the other hand, the increase in the GDP deflator has been quite limited compared to the United States and Europe, and increases in unit labor costs and unit profits have not been observed. This suggests that price rises in Japan have been mainly attributable to the upward pressure of costs led by the rise in import prices.

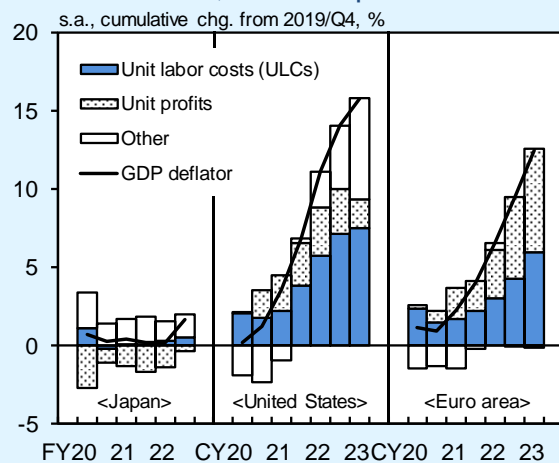
That said, declines in Japan's GDP deflator were observed in past phases of rising import prices, reflecting moves to make up for the accompanying cost increases by restraining

**Chart B3-3: CPI by Cost Structure**



Source: Ministry of Internal Affairs and Communications.  
Notes: 1. Based on staff calculations using the CPI excluding fresh food, energy, mobile phone charges, and imputed rent.  
2. CPI items are matched to the items in the 2015 *Input-Output Tables for Japan* and grouped in terms of their "total imports coefficient" or the share of "wages and salaries" and other labor costs in the domestic output of those items. Figures in the chart are the weighted averages of the items grouped in the top (bottom) 25 percent.

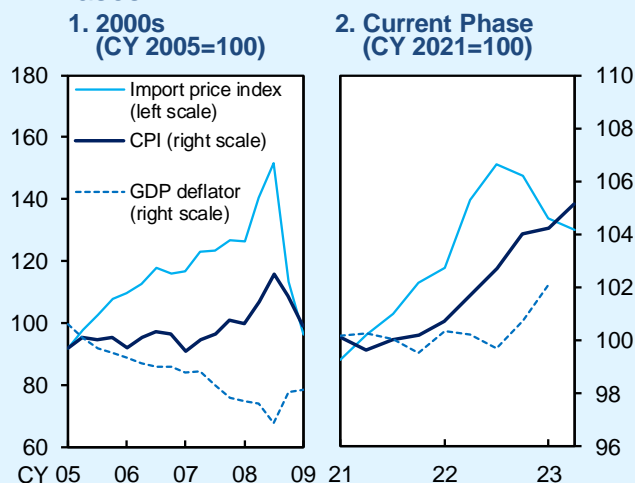
**Chart B3-4: GDP Deflators in Japan, the United States, and Europe**



Sources: Cabinet Office; BEA; Eurostat.  
Note: Figures for the United States and the euro area for the first half of 2023 are those for 2023/Q1.

wages and profits. On the other hand, the GDP deflator has been flat or even rising moderately during the current phase due to progress in the pass-through of cost increases to selling prices, as noted in Box 2 (Chart B3-5). Thus, there are different aspects to Japanese firms' price-setting stance from that in the past and, as seen in this year's annual spring labor-management wage negotiations, firms have been taking a more positive stance in setting wages recently.<sup>21</sup> Going forward, how such factors will affect price developments warrants careful attention.

**Chart B3-5: Comparison of Cost Increase Phases**



Sources: Bank of Japan; Ministry of Internal Affairs and Communications; Cabinet Office.  
 Note: Figures for the import price index are on a yen basis. The CPI figures exclude fresh food. Figures for the GDP deflator are seasonally adjusted.

<sup>21</sup> For the linkage between wages and prices, see Box 2 in the April 2023 Outlook Report.