

(Box 5) Intensifying Competition and Sectoral Shocks

In theory, the output gap and inflation expectations are two important factors that determine general price inflation. In practice, however, it is also affected by sectoral shocks. A typical example of a sectoral shock is the reduction in mobile phone-related prices due to the spread of MVNOs (Mobile Virtual Network Operators).⁴⁶ In addition, the price-cutting strategies of mainly supermarkets, which are facing competition with other types of retail businesses, also can be regarded as a sectoral shock.⁴⁷

Prices of and charges for mobile phones dropped substantially last year as competition among mobile phone carriers intensified, partly reflecting the spread of MVNOs. Although the year-on-year rate of change in mobile phone prices has returned to around 0 percent recently, mobile phone charges continue to push down prices (Charts B5-1 and B5-2).⁴⁸

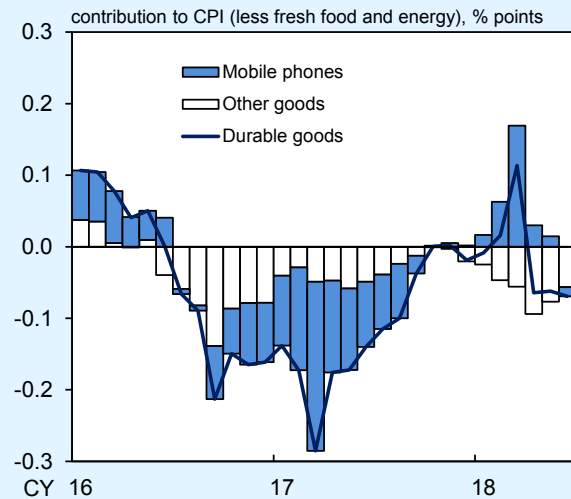
Looking at the Nikkei CPINow and the SRI-Hitotsubashi Unit Value Price Index, which are indexes aggregated mainly from supermarket

⁴⁶ For details on the relationship between developments in the mobile phone market and the CPI, see also Box 4 in the April 2017 Outlook Report.

⁴⁷ These examples can be interpreted as the inevitable adjustment in relative prices in response to a change in the competitive environment and also as supply shocks resulting from the rise of new businesses.

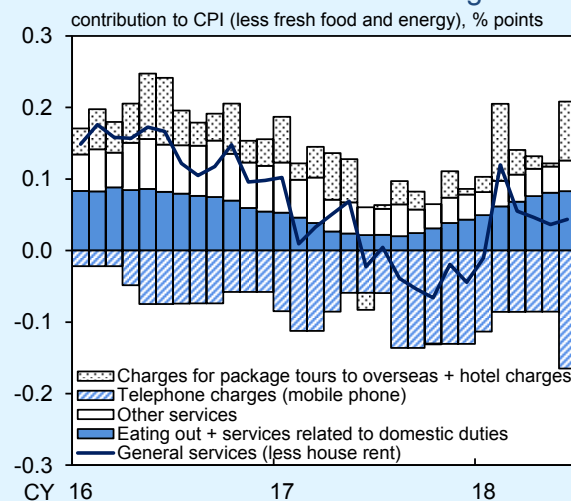
⁴⁸ Meanwhile, looking at developments in general services (less house rent) -- excluding charges for mobile phone services -- the rate of increase has accelerated recently, with fluctuations resulting from charges for overseas package tours and hotel charges smoothed out.

Chart B5-1: Mobile Phones



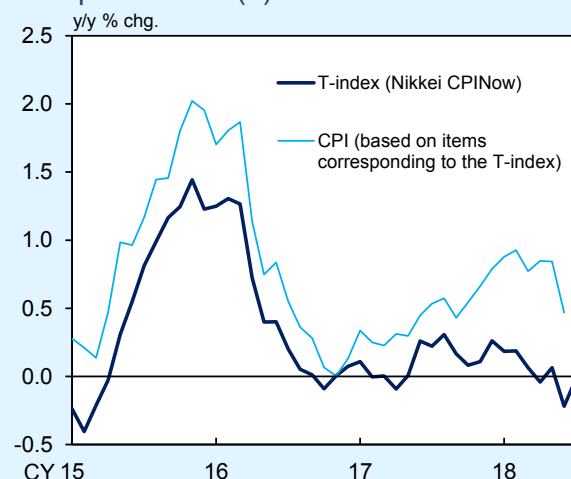
Source: Ministry of Internal Affairs and Communications.

Chart B5-2: Mobile Phone Charges



Source: Ministry of Internal Affairs and Communications.

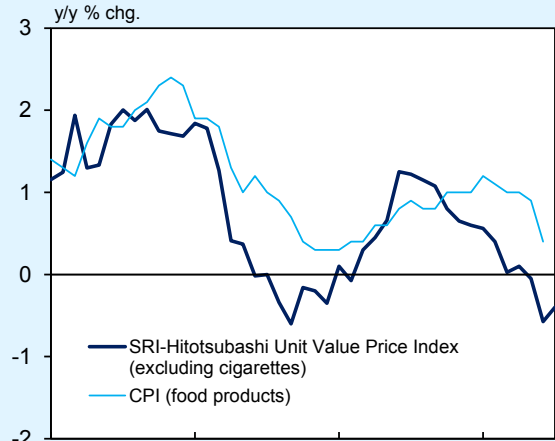
Chart B5-3: Sales Price Changes in Supermarkets (1)



Source: NOWCAST, Inc.
Note: Figures are adjusted for changes in the consumption tax rate.

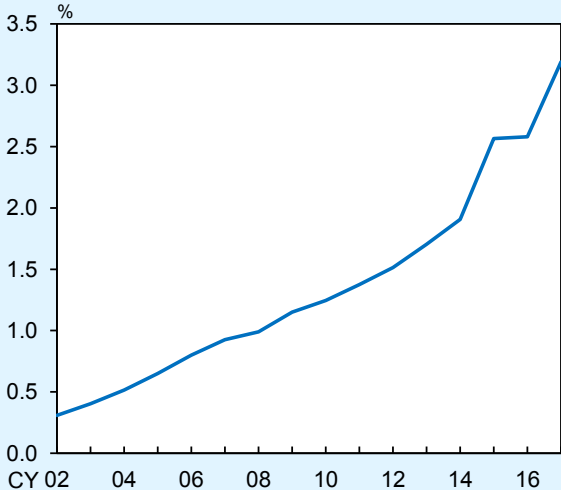
point-of-sales data, in order to examine developments in sales prices at supermarkets, the rates of increase have clearly slowed in the past year or so (Charts B5-3 and B5-4). Such relatively weak prices are likely due to the intensifying competition with online retailers and drugstores (Chart B5-5).⁴⁹

Chart B5-4: Sales Price Changes in Supermarkets (2)



Sources: Research Center for Economic and Social Risks, Hitotsubashi University; Ministry of Internal Affairs and Communications.
 Note: Figures are adjusted for changes in the consumption tax rate.

Chart B5-5: Online-Shopping Ratio to Total Expenditure



Source: Ministry of Internal Affairs and Communications.
 Note: Figures are calculated using the "total expenditure on goods and services ordered over the Internet" from the "Survey of Household Economy" and "consumption expenditures" from the "Family Income and Expenditure Survey."

⁴⁹ For details on how the rapid expansion of online shopping has exerted downward pressure on prices in Japan through competition with existing retailers such as supermarkets, see "The Effects of the Expansion of Online Shopping on Prices," Bank of Japan Review Series (2018-J-5) (available only in Japanese).