

Economic Short Comment (14 Aug 2023)

The actual sales of supermarkets, which determine the tone of consumption

~ In the most recent period, there has been a decrease of around 6% compared to the previous year ~

● Challenges in Assessing Domestic Consumption

Discerning the actual state of domestic consumption has become increasingly challenging. While the transition to the fifth category of COVID-19 infections and wage hikes this spring have heightened expectations of a consumption recovery, the inflation-induced rise in frugality is intensifying downward pressure. It is indeed a situation where positive and negative factors intermingle.

Furthermore, the ongoing surge in inbound tourism consumption is making the real state of domestic consumption even harder to discern. Amidst these factors, we cannot overlook the continuous decline in real wages, which significantly impacts the consumption trend (Figure 1). While there were hopes for a positive shift after this spring's wage hikes, the trend has ultimately been declining compared to the previous year. With real wages continuously decreasing, a consistent increase in domestic consumption seems unlikely, and a cautious approach seems essential.

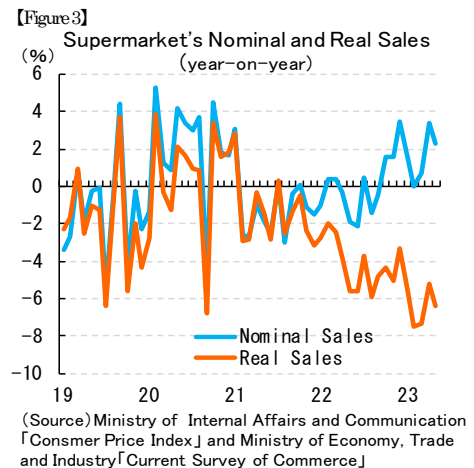
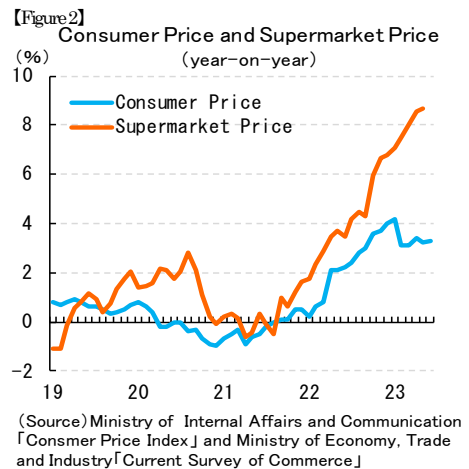
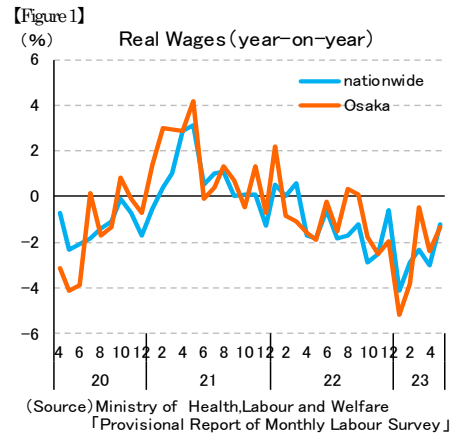
● Trends in Supermarket Sales

In the context of declining real wages, the movement of essential goods is crucial in understanding the basis of domestic consumption. One such indicator is the trend in supermarket sales, which is currently on an upward trajectory both nationally and in the Kansai region, with a recent year-on-year increase of around 3%.

However, considering the current inflation, the critical factor is not just sales but the real sales trends after accounting for inflation. Therefore, we have calculated a "Supermarket Price Index" based solely on supermarket products (Figure 2). Its increase rate is as high as 8%, revealing a significant gap from the overall consumer price trends since 2023. The high supermarket prices are largely due to the surge in food prices, which recently exceeded a year-on-year increase of 10%. Given that food products make up 80% of supermarket sales, they inevitably have a substantial impact.

● Significant Decline in Real Sales

Based on the above, the trend in real supermarket sales is as depicted in Figure 3. It is clear that there is a significant reduction, indicating



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a challenging environment. Sales aren't growing to match the product price hikes, suggesting consumers are reducing their purchasing volume. This epitomizes the consumption reality surrounding essential goods. The inclination to save is unmistakably intensifying month by month in response to declining real wages. Such trends aren't limited to essential items; there are emerging indications from the tourism industry suggesting domestic tourist activity is starting to lag.

● Future Inflation Trends

Given the view that an increase in real wages is indispensable for domestic consumption recovery, future inflation trends will play a crucial role. Come September, government subsidies for electricity, gas, and gasoline prices are set to expire, and inflation rates are expected to surge at that point. The timing for real wages to turn positive seems to be a way off.

Concurrently, with increasing corporate costs, there are concerns over declining profits, especially for small and medium-sized enterprises. If corporate profits continue to deteriorate, the potential for wage decline might become a significant consideration. In terms of individual consumption, there's a strong perception of the effects of transitioning to the fifth category of COVID-19 and wage hikes. Yet, despite the seemingly positive movements in inbound tourism, the stagnation sentiment isn't prevalent. However, considering the income environment and the purchasing status of essential goods, caution is already necessary, and future optimism seems unwarranted.

(Reference)

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