

## Economic Short Comment (26 Dec 2023)

The rising prices of services in Japan and the US, which are similar but different  
 ~ The current state of inflation in Japan ~

### ● Trend of Consumer Prices

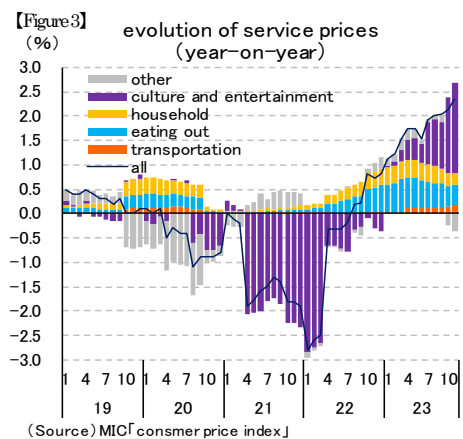
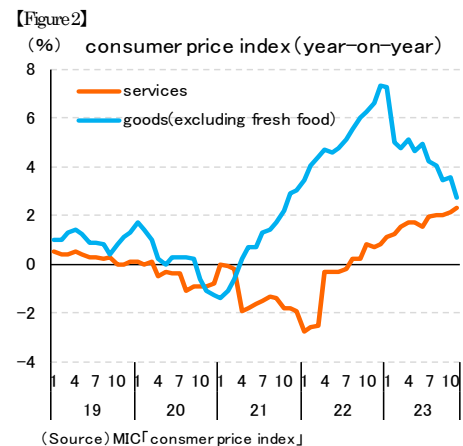
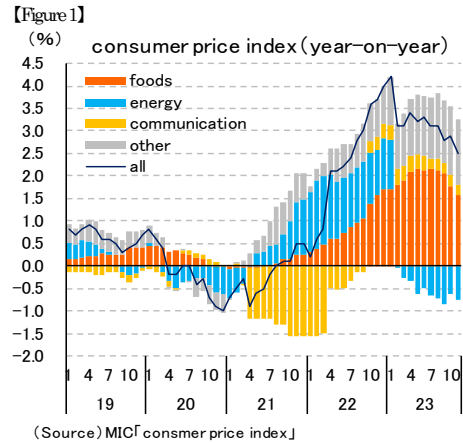
The recent rise in consumer prices has decreased to 2.5% (Figure 1). The rate of increase has been declining since January 23, when it peaked. Looking at the movement by item, the rate of increase in food prices, which has pushed up the overall rate so far, has gradually begun to decline. Against this backdrop, many people believe that the inflation rate will continue to gradually decline in the future. On the other hand, it is increasingly believed that the factors pushing up prices have shifted from one-off price increases for goods to increases in service prices.

Generally, rising prices lead to income pressure and act as a brake on the economy, causing significant negative effects. However, when it comes to the rise in service prices, there are not a few positive views. It is believed that the expansion of demand due to the wage increase effect is supporting the rise in prices, and that it is structurally different from cost-push inflation.

As shown in Figure 2, the trends in the price increases of goods and services are clearly different. The rise in service prices is progressing in the same way as in the United States, but it is generally believed to be due to the effect of wage increases. In the United States, the tendency for service prices to push up overall prices is remarkable, Japan as well, it is expected that the rise in service prices will continue due to the continued wage increase.

### ● Breakdown of Service Price Increases

However, it is necessary to make a careful judgment as to whether the rise in Japan's service prices should be viewed in the same way as in the United States. This is because the rise in Japan is quite biased toward specific services. When the movement of service prices is divided by main elements, the main factor pushing them up at present is mainly education and entertainment-related (Figure 3). And most of this is accounted for by the rise in hotel prices. Other elements are lacking in upward momentum, with growth rates in areas such as eating out showing a downward trend. If the wage increase effect is pushing up service prices, it would not be strange for these to rise widely as well. In fact, against

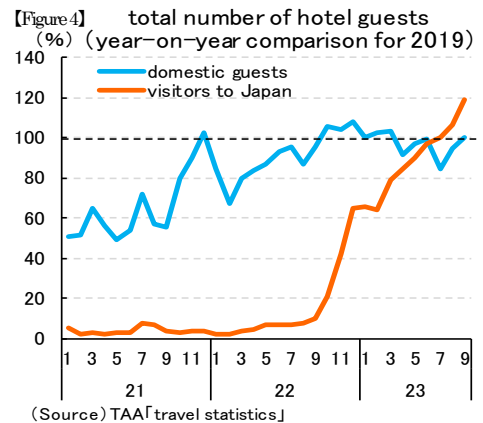


※ The purpose of this document is to provide information and is not intended to solicit product transactions. Additionally, this document has been created based on data deemed reliable by our company, but it does not guarantee accuracy or completeness. The contents mentioned in this document are as of the time of writing and may be subject to change without notice in the future.

the backdrop of consumers' savings-oriented mindset, there is a movement among various restaurant chains to lower the prices of some menu items.

### ● Background of Hotel Price Increases

Furthermore, when we look at the drivers of the rise in hotel prices, it is basically the increase in inbound tourism that is at the center. The utilization status of hotels at present is moving in a direction where inbound tourism is exceeding the pre-corona level, while domestic customers are beginning to move in a direction below the pre-corona level (Figure 4). The reason for this is said to be the pressure on income due to inflation, as well as the rise in hotel prices. From an objective point of view, even if hotel prices continue to rise, it is difficult to give a very positive evaluation. If the crucial domestic demand is decreasing and the rise in prices is being supported by inbound tourism, then caution is required in judging the overall price situation. In order to view the rise in service prices as part of a virtuous cycle of wage increases and price increases, it is necessary for other service prices, such as eating out and transportation, to rise as well.



(Reference)

Resona Research Institute Co.,Ltd  
Hideyuki Araki, Chief Economist  
hd-araki@rri.co.jp

※ The purpose of this document is to provide information and is not intended to solicit product transactions. Additionally, this document has been created based on data deemed reliable by our company, but it does not guarantee accuracy or completeness. The contents mentioned in this document are as of the time of writing and may be subject to change without notice in the future.