

## Chapter 3 Trends in Prices and Worker's Household Expenditures

Domestic corporate goods prices increased over the previous year for the first time in seven years, while consumer prices remained at the same level as during 2003. With the exception of perishable food, there was a slightly declining tone, with a mildly deflationary trend overall.

Annual household consumption was up for the first time in seven years due to factors such as improved consumer sentiment and increased income. Broken down by quarter, however, household consumption showed its first quarterly decline in five quarters during the October-December quarter, due in part to typhoons and other weather problems.

### (Price Trends)

During 2004, domestic corporate goods prices increased for the first time in seven years, while consumer prices remained at the same level as in 2003. With the exception of perishable food, there was a slightly declining tone, with a mildly deflationary trend overall.

Domestic corporate goods prices increased over the previous year for the first time in seven years, reflecting a sharp rise in materials prices due to the recovery of the global economy as well as a further jump in the price of crude oil, which set a record during 2004. Breaking down the data by demand stage, the increase in material prices extended as far as intermediate materials, but it was not reflected in final commodities. The shift of raw material prices to increased product prices thus appears to have been limited.

Beginning in 1999, consumer prices had fallen for five consecutive years, but in 2004 they remained at the same level as the previous year (Figure 10). Although prices for consumer durables fell, factors such as increased prices for petroleum products due to the jump in crude oil prices, a sharp rise in the price of fruits and vegetables due to bad weather, and high prices for rice products due to the lingering effects of the cool summer of 2003 kept overall consumer prices from dropping.

### (Worker's Household Expenditure Trends)

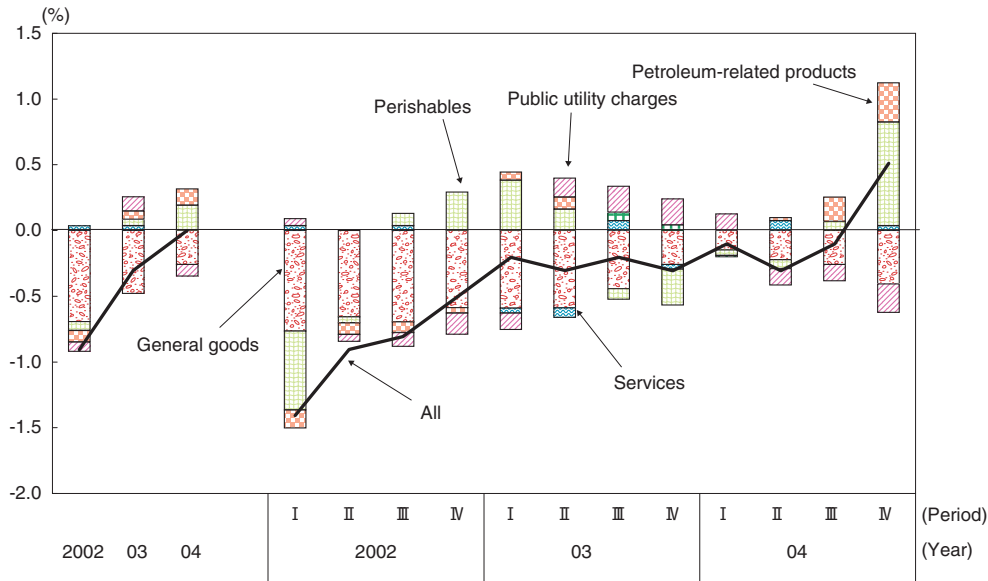
Reflecting increased consumer sentiment and the first increase in income in seven years, the living expenditures of worker's households during 2004 rose 1.5% in both nominal and real terms, the first increase since 1997 (Table 11). Broken down by quarter, however, the living expenditures of worker's households showed their first quarterly decline in five quarters during the October-December quarter. This was due to factors such as the first decline in income in four quarters, as well as typhoons and other weather problems.

The income of worker's households increased for the first time in seven years, by 1.0% over the previous year in both nominal and real terms, as both household head and spouse of household head income shifted to a rising trend.

In 2004, the propensity to consume was 74.4%, an increase of 0.4% percentage points from the previous year. Looking at the Consumer Confidence Index, a major indicator of consumer sentiment that has a strong influence on propensity to consume, it began rising in June 2003 and continued to do so through December 2004.

On the supply side, the sales value of retail in 2004 fell 0.6% from the previous year, but the rate of decline slowed compared with 2003.

Figure 10 Trends in Level of Contribution to Increase Rate of Consumer Price Index by Goods/service Group



Source: Calculated by the Office of Counselor for Labour Policy, MHLW, using "Consumer Price Index" of Statistics Bureau, MIC

Notes: Consumer price indexes are partially reclassified as follows:  
 General goods: Industrial products excluding petroleum-related products, rice, publications, etc.  
 Services: Services excluding public services  
 Perishables: Fresh vegetables, fresh fruits, fresh fish and shellfish, meat, etc.  
 Petroleum-related products: Kerosene, liquefied propane, gasoline, etc.  
 Public utility charges: Public services, electricity, gas, water supply

Table 11 Main Items of Worker's Household Expenditures (All Japan Worker's Households) and Factors Contributing to Changes in Real Living Expenditure

(Unit: %)

Year/Period	Living expenditure		Income			Propensity to consume	Consumer price index
	Nominal	Real	Nominal	Disposable income Nominal	Non-living expenditures Nominal		
Difference from the previous year (contribution to the real consumption expenditure)							
2002	-1.3	-0.2	-2.3	[-2.7]	-2.6	-0.8 [0.1]	73.1 [1.4]
03	-1.5	-1.2	-2.6	[-3.1]	-2.7	-2.0 [0.4]	74.0 [1.2]
04	1.5	1.5	1.0	[1.2]	1.0	1.2 [-0.2]	74.4 [0.5]
Difference from the same period of the previous year							
2004							
I	2.9	3.0	2.1		3.7	-6.2	-0.6
II	3.6	4.0	1.5		0.9	4.3	1.9
III	0.9	1.0	1.9		1.8	2.7	-0.6
IV	-1.1	-1.7	-0.8		-1.4	2.6	0.2
Index (seasonally adjusted)							
2003							
I	94.8	96.9	93.1		92.7		73.5
II	96.1	98.3	93.4		93.6		73.8
III	95.6	97.9	93.0		93.8		73.2
IV	95.9	98.4	93.3		93.0		74.1
04							
I	97.6	100.0	94.9		96.0		73.1
II	99.3	101.9	95.1		94.7		75.4
III	96.4	98.8	94.7		95.4		72.6
IV	95.2	97.0	93.1		92.5		74.0

Source: Calculated by the Office of Counselor in charge of Labour Policy, MHLW, using "Family Income and Expenditure Survey" and "Consumer Price Index" compiled by the Statistics Bureau of the MIC.

Notes: 1) In the "Difference from the previous year" column and "Index (seasonally adjusted)" column for "Propensity to consume," the levels are indicated, while in the "Difference from the same period of the previous year" column the point difference is indicated.

2) Consumer Price Index is the general, excluding imputed rent.

3) The figures in [ ] are the degree of contribution to the rate of change of the real living expenditure. (however, due to calculation error and rounding error, they do not always coincide.)

Specifically, the calculation is as follows ;

$$C/P = Y_d \cdot C / Y_d \cdot (1/P) \text{ and } Y_d = I \cdot N = 1 \cdot (1 - H) \text{ accordingly,}$$

$$\begin{aligned} \dot{(C/P)} &= \dot{C} + \dot{(1-H)} + \dot{(C/Y_d)} - \dot{P} \\ \downarrow & \quad \downarrow \quad \downarrow \quad \downarrow \\ \text{Rate of change of} & \quad \text{Rate effect of proportion of} & \quad \text{Propensity to consume effect} & \quad \text{Consumer price effect} \\ \text{real living expenditure} & \quad \text{non-living expenditure} & & \end{aligned}$$

C : Living expenditures

Y<sub>d</sub>: Nominal disposable income

P : Consumer price

I : Income

N : Non-living expenditures

H : Proportion of non-living expenditures (non-living expenditure/income)

The "." over each variable indicates the rate of change of the difference from the previous year.

4) The "Family Income and Expenditure Survey" is based on two or more person households (excluding agricultural, forestry and fisheries households.).