

Economic Commentary

FICC Research Dept.

July Tokyo CPI: Cost pass-throughs continue for food, but limited for other items

- Decline y/y due to policy effects
- Strong willingness to pass on higher costs to food prices; limited decline for CPI-based rice prices?
- Limited progress passing on higher costs to prices for items other than food

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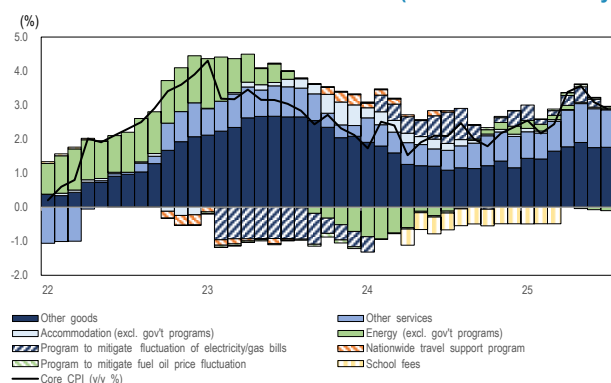


July Tokyo CPI: Decline y/y on policy effects, strong willingness to pass higher costs to food prices

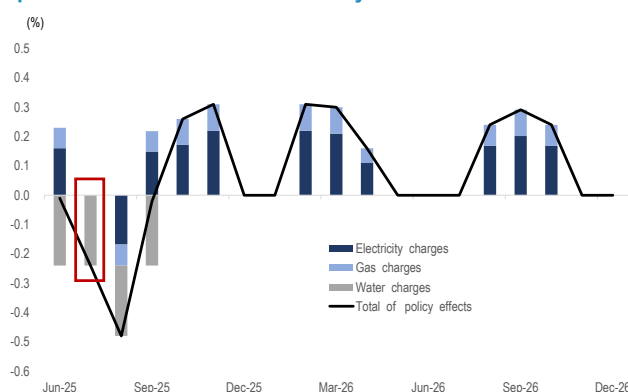
The Tokyo core CPI (headline excl. fresh food) for July 2025 was +2.9% y/y, down from +3.1% in June and in line with the median market forecast of +2.9%. The core-core CPI (headline excl. fresh food and energy) was +3.1%, unchanged from June.

The y/y slowdown for July CPI was largely due to the resumption of government subsidies to cut electricity and gas costs. The base effect of electricity and gas subsidies, as well as the impact of Tokyo's decision to scrap water charges, resulted in a downward effect of about -0.01% for CPI in June. However, that downward effect increased to -0.24% in July. Therefore, the y/y decline in core CPI growth (3.1% to 2.9%) can be explained almost entirely by the effect of the government policies. In addition, the CPI for August is also expected to decline y/y due to government measures to address high prices.

Core-core CPI (seasonally adjusted) was flat m/m at +0.0% in July (+0.1% in June). This was due to the reactionary pullback from last year's sharp rise in the price of non-glutinous rice, as well as a decline in medical/welfare-related services, such as nursery school fees, along with recreation & culture-related services, such as golf green fees. That said, higher costs continue to be passed to food prices, which was a key factor pushing up core-core CPI.

Breakdown of Contributions to Core CPI (in ward-area of Tokyo)

Source: Ministry of Internal Affairs and Communications (MIC); compiled by Daiwa.

Impact of Inflation Measures on Tokyo CPISource: MIC; compiled by Daiwa.
Note: Including base effects.

Cost pass-throughs for food continue, rice price decline likely limited

Excluding fresh foods, food prices rose 7.4% y/y (+7.2% in June), marking the seventh straight month of price growth. Looking at specific food items, price increases can be seen across a wide range of items, including beef (domestic), grilled eel, potato chips, and pre-cooked curry. Also, the cost of dining out was +5.6% y/y, increasing from +5.5% in June. This trend of passing on higher costs to food prices is expected to continue in August.

Meanwhile, the price increase rate for rice narrowed to +81.8% y/y (+90.6% in June). However, the index (price level) for rice remained almost unchanged at 208.2 (208.3 in June). Therefore, the y/y narrowing of price increases is mainly due to the reaction to the sharp price jumps during the previous year. According to POS data released by the Ministry of Agriculture, Forestry and Fisheries, the price level for rice is falling and there is a gap between the CPI rice price and the actual price.

This price gap is due to the fact that POS data indicates the average price of rice sold at supermarkets and other stores, while CPI captures the price levels of a few representative specific items. If consumer spending shifts to blended rice, including cheaper stockpiled rice, the impact would not be fully reflected in the CPI data, but would likely be reflected in POS data. Based on that point, the decline in rice price levels in the CPI will likely remain limited going forward, as well.

Meanwhile, nursery school fees decreased 5% y/y ($\pm 0\%$ in June), while golf green fees declined 0.6% (+5.4% in June), contributing to slower growth for medical & welfare-related services and recreation & culture-related services.

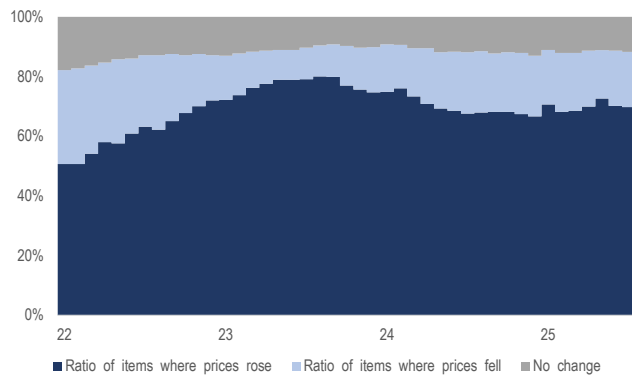
Limited cost pass-through movements for non-food items

The key points to watch in terms of prices are the continuity of cost pass-throughs for food products and the extent to which such movements spread to other items. In order to better understand the progress of cost pass-throughs, we confirmed the percentage of items with rising prices to those with falling prices. In July, the percentage of items with rising prices in core CPI was 69.7%, a slight decrease from 70.1% in June.

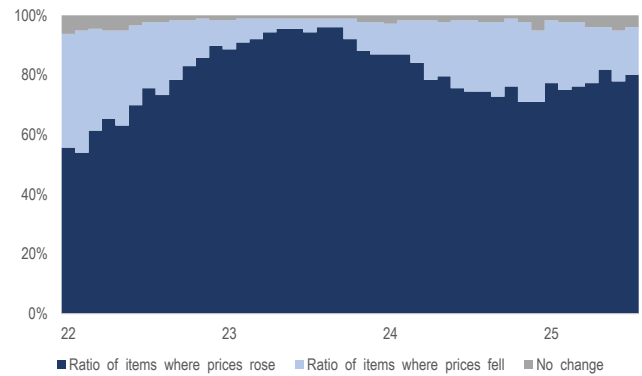
Looking at individual items, the percentage of items with price increases among food products excluding fresh food was 80.1% (77.8% in June), the percentage of items with price increases among goods excluding food was 65.4% (68.4% in June), and the percentage of items with price increases among services excluding dining out was 61.4% (60.5% in June). Overall, the trends are somewhat mixed. In other words, even though strong cost pass-through trends continue for food products, we have not observed any signs of further strengthening of cost pass-throughs among other items.

The July CPI for the Tokyo also confirmed the continued passing on of higher costs to food prices. BOJ Deputy Governor Shinichi Uchida touched on that point during his 23 July speech. He commented that, "At least with regard to food prices, firms' price-setting behavior has changed significantly compared to the past." This seems highly likely. That said, the strength of prices is currently limited to food products. Under such conditions, even taking into account the July CPI for Tokyo, there is no change to our outlook that CPI is expected to decline to around 2% y/y toward the end of 2025.

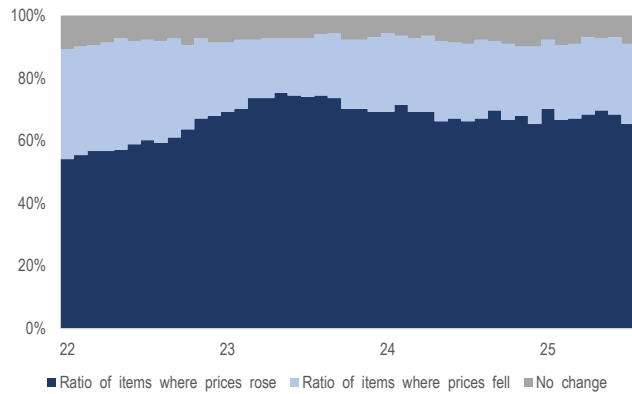
Based on the latest CPI figures for Tokyo, our nationwide core CPI forecast for July is +3.1% (+3.3% in June).

Percentage of Tokyo Items for Which Prices Rose/Fell (core CPI)


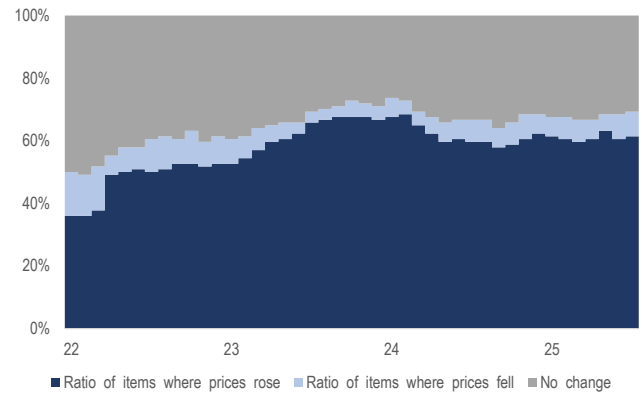
Source: MIC; compiled by Daiwa.

Percentage of Tokyo Items for Which Prices Rose/Fell (food excl. fresh food)


Source: MIC; compiled by Daiwa.

Percentage of Tokyo Items for Which Prices Rose/Fell (goods excl. food)


Source: MIC; compiled by Daiwa.

Percentage of Tokyo Items for Which Prices Rose/Fell (services excl. eating out)


Source: MIC; compiled by Daiwa.

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