

Daiwa's Economic View

Cost pass-throughs set to continue

- Food price inflation has peaked but set to remain elevated
- Surging crude oil price could re-emerge as upside risk to inflation

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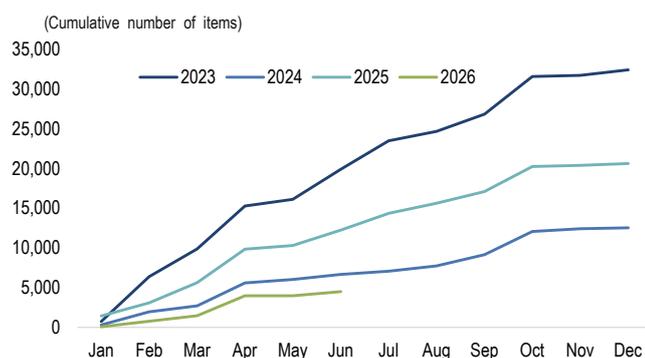
Food price inflation has peaked but set to remain elevated

February Tokyo-area CPI inflation was +1.8% y/y for the core and +2.5% for the core-core measure. While food price inflation looks to have peaked, the data also confirm cost pass-throughs across a wide range of items. We expect food prices to continue falling versus peak levels, but we are concerned about the potential impact on Japan's economy from the renewed emergence of Middle East risk. We estimate that [a 50% rise in crude oil prices would push up Japan's CPI by around 0.6ppt](#), suggesting upside risk to inflation. In this report, we review recent trends in food prices.

According to the latest data from Teikoku Databank, companies plan to raise prices for a total of 4,493 items in Jan-Jun 2026, versus more than 10,000 items at the same point last year. This suggests the pace of price hikes is slowing.

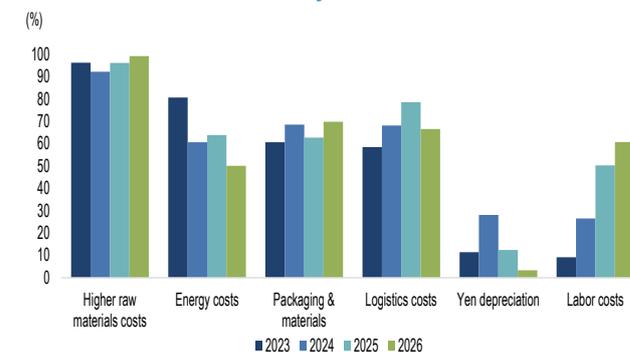
Price hikes driven by higher labor costs are also on the rise, and now account for over 60% of the total. Meanwhile, hikes driven by energy and the weaker yen are at their lowest levels in recent years.

No. of Food Items with Price Hikes



Source: Teikoku Databank; compiled by Daiwa.

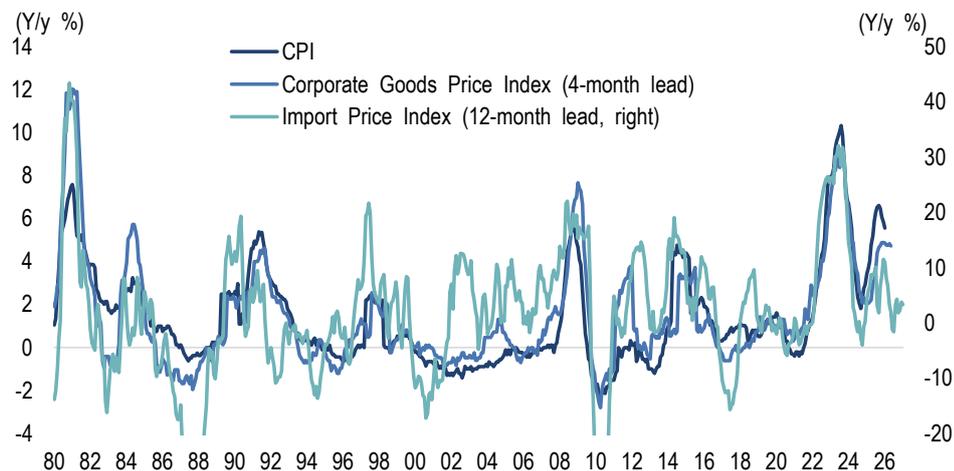
Reasons for Price Increases by Food Manufacturers



Source: Teikoku Databank; compiled by Daiwa.

The corporate goods price index for beverages and food has recently flattened out. Over the longer term, it has moved broadly in line with the CPI food products category, suggesting that the latter is likely to remain elevated for some time. The import price index for beverages and foods and agriculture products for food, which we think leads food products in the CPI, had been trending lower but has recently turned upward. We therefore expect CPI food product prices to remain elevated for a while before gradually declining. That said, [we would remain alert to the fact that food prices are susceptible to a confluence of factors.](#)

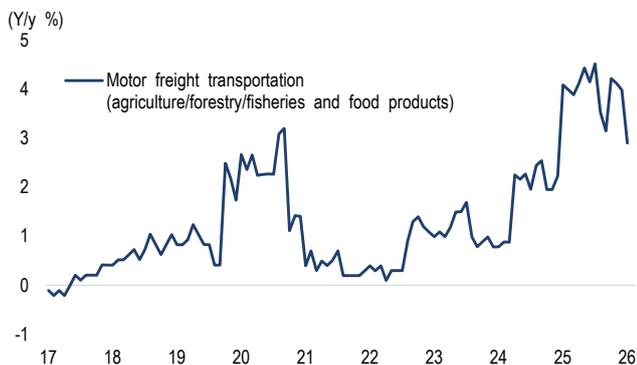
Price Trends of Food-related Items



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

The services producer price index also shows a sustained uptrend for motor freight transportation. These service price indices reflect the impact of energy prices as well as higher labor costs. Since labor cost increases feed through to the services producer price index at a lag, services producer prices for motor freight transportation (agriculture, forestry & fishery and food products) are likely to continue rising.

Services Producer Price Index



Source: BOJ; compiled by Daiwa.

Scheduled Cash Earnings (transport and postal activities)



Source: Ministry of Health, Labour and Welfare; compiled by Daiwa.

Rising crude oil prices also push up transportation and energy costs. If companies pass through these costs in addition to higher labor expenses, motor freight transportation prices are likely to rise further, adding more upward pressure on inflation.

On transportation costs, a Tokyo Shoko Research survey on inflation and cost pass-throughs found that over 90% of transportation companies reported rising costs¹. If higher crude oil prices push up transportation costs on top of rising labor expenses, the transportation industry will likely continue to face cost pressures. However, most transportation companies have only been able to

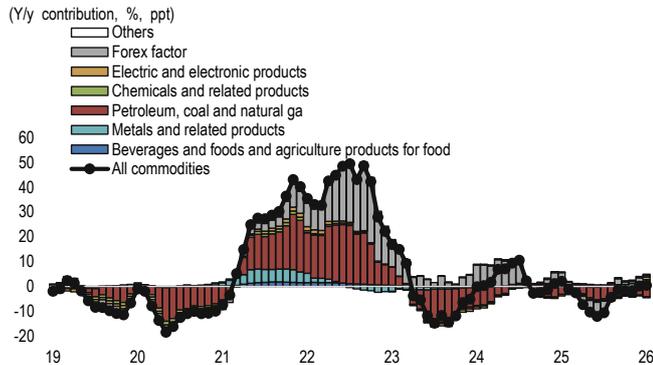
¹ Based on responses to the question, "Compared with a year earlier, by what percentage have your company's total costs (COGS and SG&A) increased due to factors such as higher prices, rising labor costs, and yen depreciation?"

pass through less than half of total cost increases². If costs (incl. crude oil) continue to rise, transportation companies may have no choice but to raise prices further.

Surging crude oil price could re-emerge as upside risk to inflation

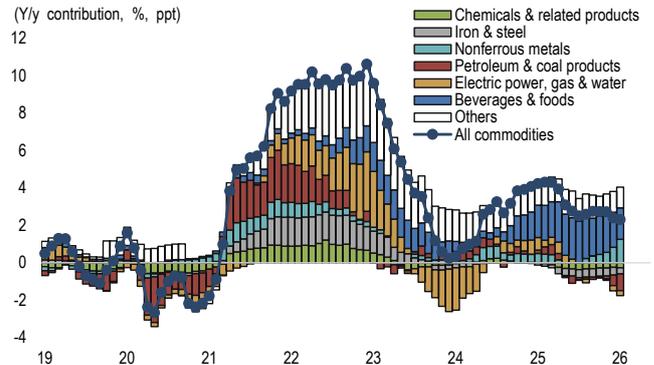
We would not discount the upside risks to inflation from renewed Middle East tensions given that surging crude oil prices feed through to consumer prices via import and corporate goods prices.

Import Price Index (breakdown)



Source: BOJ; compiled by Daiwa.

Corporate Goods Price Index (breakdown)



Source: BOJ; compiled by Daiwa.

[Two sources of uncertainty for the outlook have emerged: the US's imposition of new additional tariffs following the recent Supreme Court ruling, and the Middle East situation.](#) In a speech on 2 March, Bank of Japan (BOJ) Deputy Governor Ryozi Himino noted that there are “many things that are difficult to assess” regarding how the Middle East situation will unfold, highlighting considerable uncertainty at this stage. We concur with Himino’s framing of higher crude oil prices and yen depreciation as “supply shocks,” and think the impact on prices is likely to prove temporary.

Though food prices now appear to be past their peak, we expect them to be influenced by a confluence of factors including rising crude oil prices, FX movements, and higher labor costs. In particular, rising crude oil prices could feed through to food prices via higher transportation costs. We also expect companies to continue passing through rising labor costs, suggesting that cost pass-throughs will likely persist for some time. We continue to monitor inflation trends.

² Based on responses to the question, “What is your cost pass-through rate?”

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