

'This newsletter is translated from the Japanese edition distributed on August 25th.
Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

Global Risk Watch Newsletter

The world after the coming recession, etc.

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3. Highlight of Indicator for this Month

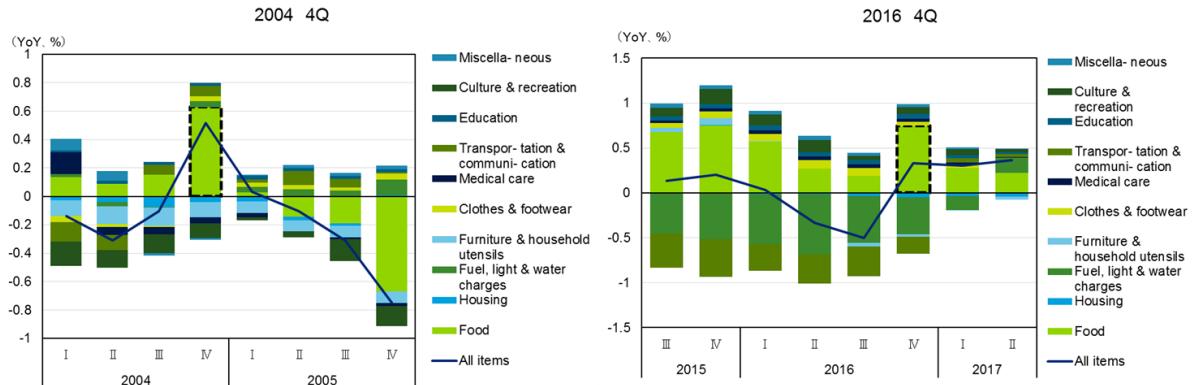
Long rain to cool down the overheating economy? (Toshikazu Kumagai, Senior Staff, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

The recent rise in vegetable prices has become a hot topic due to the unforeseen weather conditions we have seen these days. The surge in grocery prices is expected to bring down household consumption by forcing the amount of expenditure for non-food items to be controlled.

With regards to the price movement and household consumption during a period when the gross food prices rose significantly in the past, let's look at the case where the consumer price index for fresh foods that rose more than 20% YoY between October-December 2004 and October-December 2016. In both periods, prices of vegetables gradually rose from autumn to winter amid unforeseen weather conditions such as continuing typhoons, and year on year inflation rate increased mainly in foods (Chart 1). In 2016, however, the energy price index dropped so the growth rate of the comprehensive index is getting higher in 2004. Bearing this mind, the growth rate has slowed mainly in consumption of non-durable goods including food items in both periods, but the slowdown in 2004 is greater (Chart 2). As it is not enough to lower prices due to the fall in energy prices, depending on the rise in food prices and its continuity, it is expected that household consumption will be significantly lowered as it was in 2004.

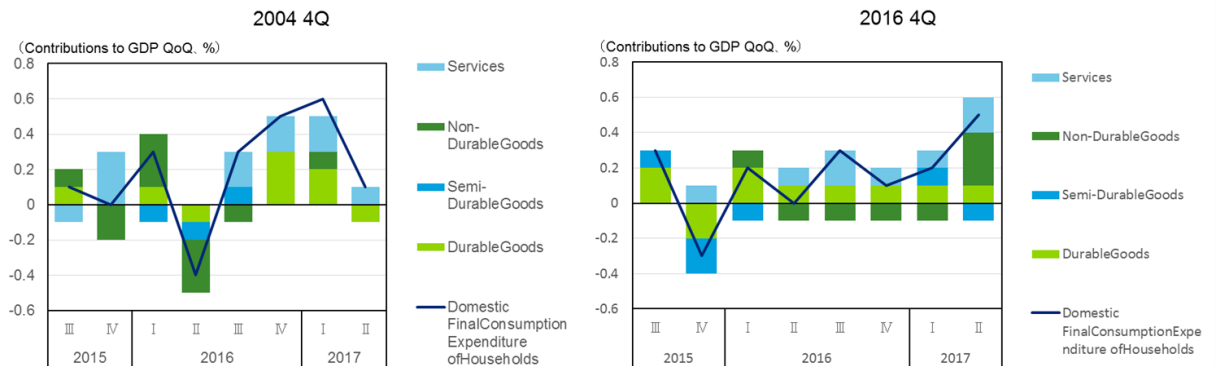
On a separate note, these unforeseen weather conditions could also influence the impact on leisure expenses that overlaps with cutbacks in outdoor activities. The April-June GDP figures that was released in the previous quarter was significantly high showing an increase of 4.0% QoQ (first QE), and was supported by steady private consumption and other factors, but the unforeseen weather conditions and how it will affect household consumption draws attention.

Chart 1 : Changes in the increases in consumer prices



*(Source) Deloitte Touche Tohmatsu LLC using data from Statistics Japan

Chart 2 : Changes in household consumption



*(Source) Deloitte Touche Tohmatsu LLC using data from the Cabinet office.

*(Note) Due to a proximity, the published data does not necessarily reflect the total amount.

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