

# All eyes on effects of rising prices

## Likely lift for markets, resource-rich nations spells opportunity

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Considerable attention is being focused on how much rising fuel and food prices are impacting household spending, with the Ministry of Economy, Trade and Industry set to release preliminary data on June retail sales on July 29. Retail sales rose 0.3% in May, the tenth consecutive month of year-on-year gain.

The core consumer price index, excluding perishables,

increased 1.9% on the year in June, while the corporate goods price index jumped 5.6% the same month. This shows that many companies have not been able to fully pass on cost increases to customers by hiking their product prices sufficiently, raising the possibility that hikes will continue at the retail level in the near future.

Until recently, the Japanese economy had been mired in deflation for many years. Opinion is divided over whether it will benefit by coming out of deflation on the back of surging input costs.

If companies curb wage growth despite rising consumer prices, household incomes will

diminish in real terms, dampening consumer spending. Rising import costs are forcing Japan to transfer a large portion of its national income to resource-exporting countries. This works to push down Japan's economic growth rate.

On the other hand, growing inflation expectations will make such tangible assets as stocks and real estate progressively more attractive, possibly revitalizing these markets. Furthermore, surging fuel and commodities prices are expected to accelerate economic growth in resource-rich countries, notably oil producers.

This will stimulate invest-

ment activities and consumer spending significantly in these countries, working to benefit Japanese exporters, many of whom specialize in high-value-added products.

Investors around the globe are seeking attractive destinations for their investment capital at a time when the U.S. economic outlook becomes increasingly uncertain. I hear that many are seeing Japanese companies in an increasingly favorable light. Corporate investor relations activities are becoming increasingly important in attracting investment capital from around the world, and Japanese firms ought to seize the opportunity provided by the current run-up in consumer prices.

