

Flash note  
20/05/2021

Alex Fusté

[@AlexfusteAlex](#)

[alex.fuste@andbank.com](mailto:alex.fuste@andbank.com)

## Besides energy, there are other important deflationary drivers

The only advantage of playing with fire is that you learn not to burn yourself. So we are going to keep playing this game, and project what is going to happen with the threat of inflation that is hitting the equity markets these days.

Yesterday we already said that the price of energy (crude oil) would probably cease to be an inflationary driver in the short and medium term, (see yesterday's **Flash Note: Good news! We believe that oil will not be an inflationary driver**). Amazingly (for me), the Goddess Fortuna considered appropriate to bless us with a -3% drop in the price of oil right after we wrote the note, and with this she appeased inflationary fears (to some degree).

Today I am going to mention another important driver for global prices. The Japanese economy. I suspect that this important driver for global prices will remain deflationary for a long time to come. Why? My thesis has to do with the demographic question. And the logic is this: A very aging economy is highly deflationary (for obvious reasons that we are not going to discuss now). Well, I suspect that the aging problem in Japan will not only persist, but will worsen, making Japan to continue as an important export hub of global deflation.

Why do I believe it? The Cabinet Office in Japan conducts an important survey every five years. This survey helps to understand the evolution of past and future dynamics in key aspects such as demographics. The results of this latest survey, released this week, leave little doubt about what will happen in the years to come. According to this national survey, an astonishing 61.1% of people in Japan believe it is hard to raise children in the country, highlighting a perception of insufficient support for parenting compared with other nations. The result marks a stark contrast to overwhelming majorities in Sweden and Germany that indicated it was easy to raise children in those countries.

The Japanese government plans to mention the survey results in an annual white paper on measures against the decline in the birth rate in Japan. The problem is that the government has already been proposing and implementing measures to reverse the problem of low birth rates for years, and the constant aging of this economy. Measures that, to date, have not served to reverse the problem.

What to expect? With the survey data indicating the low predisposition of society to promote a jump in the birth rate, combined with the current pandemic crisis and the delicate situation of public finances (suggesting limited capacity to help families), the truth is that I am inclined to think that the problem of the Japanese demography will continue to accentuate, and this supposes an important deflationary force, not only local, but regional and global. Of course, this is not the only global price factor (it is one of many), but it must be taken into account.