

# Exchange rate pass-through on Japanese prices: Import price, producer price, and core CPI

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## Abstract

Against the background of Japanese two percent inflation targeting started in 2013, we investigate what have impeded the process of passing exchange rate fluctuations to core consumer price index. To this end, we constructed industry-wise nominal effective exchange rate and industry-wise producer price indices, which are matched with import price indices. Time-varying parameter vector autoregression analysis reveals that exchange rate pass-throughs in general increased especially after the global financial crisis. Amongst pass-throughs at each stage of import price, domestic producer price, and consumer price, we find the weakest link between import price and domestic producer price. However, the impact within an industry is not negligent; what is hindering consumer price to rise after depreciation is little spillover effect to other industries at the producer price stage.

**Keywords:** Exchange rate pass-through; Industry-wise effective exchange rate; Inflation targeting; unconventional monetary policy; TVP-VAR.

**JEL Classification Codes:**