

Regional Inflation and Consumption Behavior

University of Tohoku
Jun Nagayasu

Abstract

This paper analyzes empirically interaction between the inflation rates across regions using consumption data on services and the geographical location of regions in Japan. The service sector has been expanding rapidly in terms of its contribution to the total economic activity in advanced countries, and further demographic changes have accelerated its speed in Japan over recent decades. After providing a theoretical relationship between regional inflation and consumption of non-tradable goods, we find evidence that different consumption patterns of services across regions explain heterogeneity in regional inflation in Japan.

Keywords: Regional inflation, non-tradable goods, services, demographic changes, spatial models

JEL classification: F3, R1, E3