



Economic Activity, Prices, and Monetary Policy in Japan

Speech at a Meeting with Local Leaders in Eastern Hokkaido

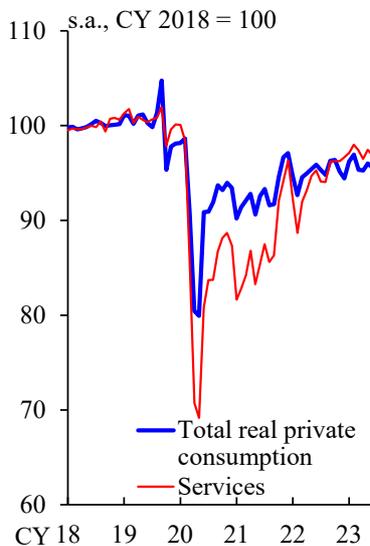
August 30, 2023

TAMURA Naoki
Member of the Policy Board
Bank of Japan

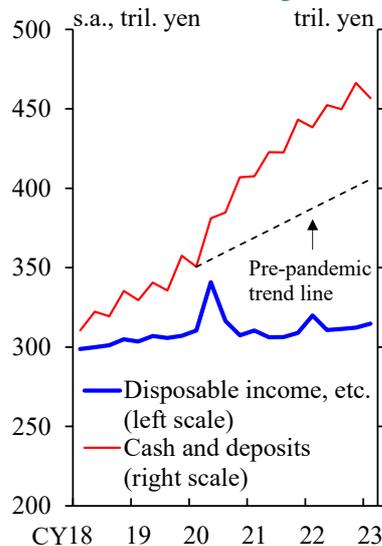
Chart 1

Private Consumption

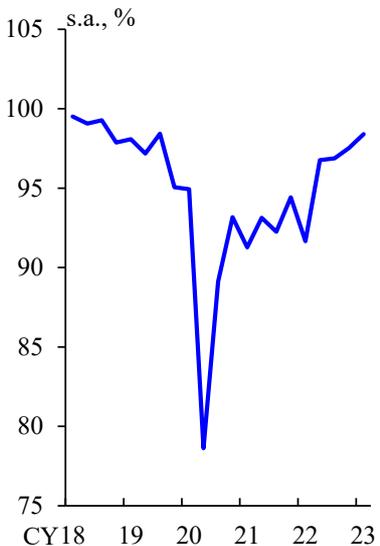
Consumption Activity Index



Household Income and Savings



Average Propensity to Consume



Notes: 1. In the left panel, figures for "total real private consumption" are for the real Consumption Activity Index and are based on Bank staff calculations.

The figures exclude inbound tourism consumption and include outbound tourism consumption.

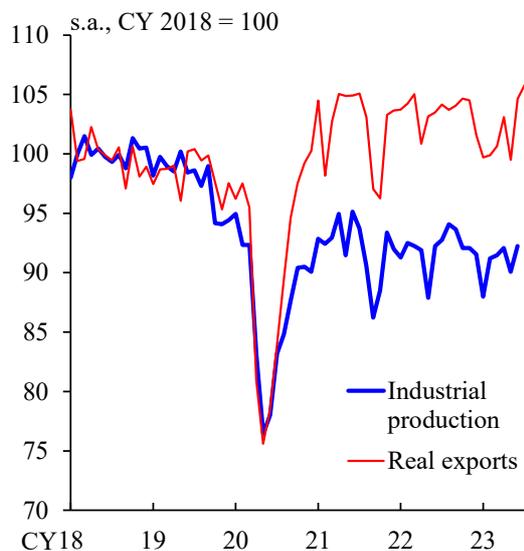
2. In the middle panel, the pre-pandemic trend line is based on the average rate of increase for 2010 through 2019.

3. In the right panel, average propensity to consume = consumption of households / disposable income, etc.

4. Figures for "disposable income, etc." consist of disposable income and adjustment for the change in pension entitlements.

Sources: Cabinet Office; Bank of Japan.

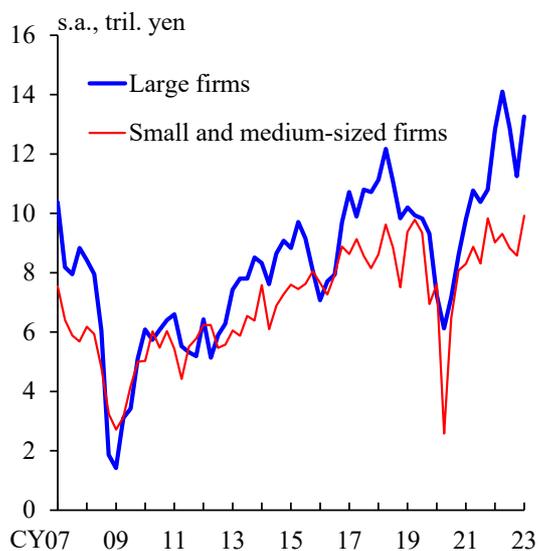
Exports and Production



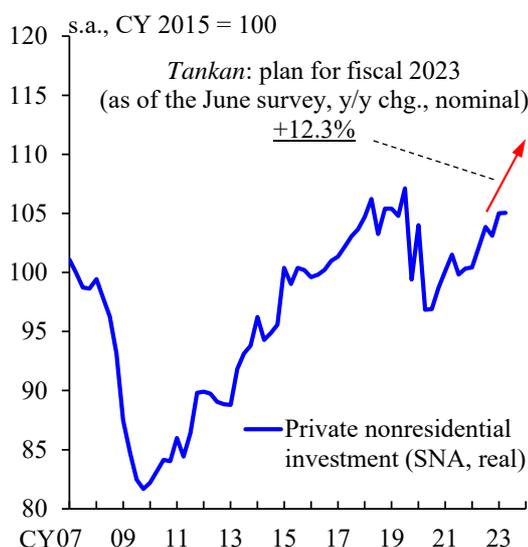
Note: Figures for "real exports" are based on Bank staff calculations.
Sources: Ministry of Economy, Trade and Industry; Bank of Japan.

Corporate Profits and Business Fixed Investment

Corporate Profits



Business Fixed Investment

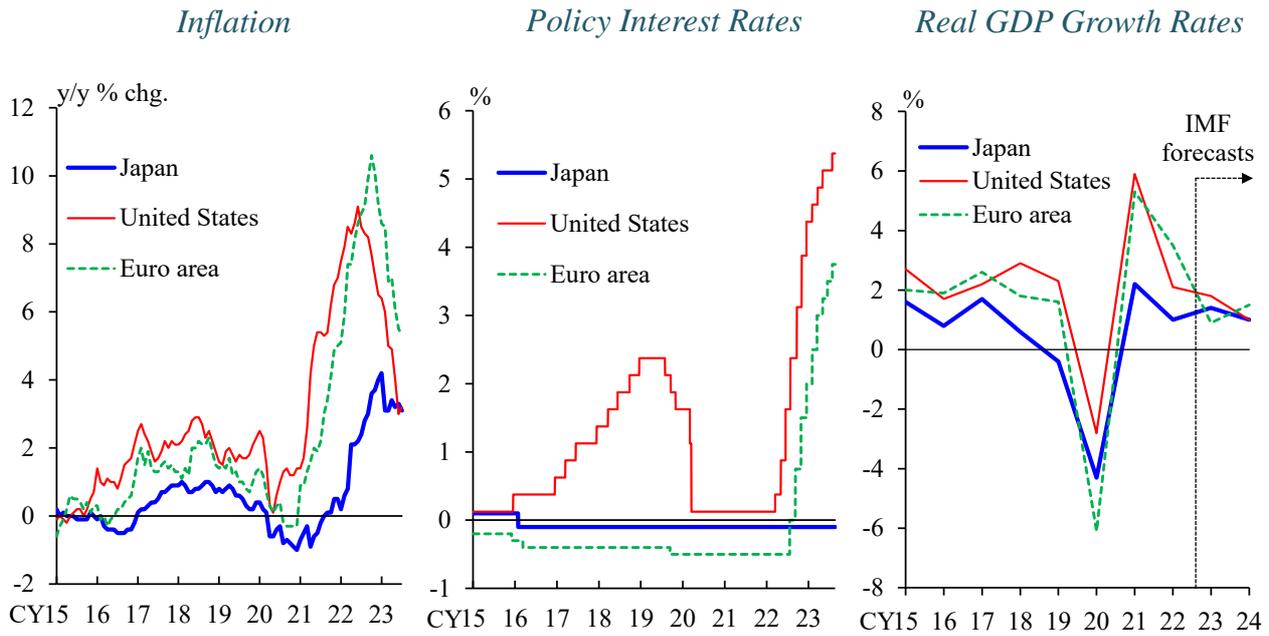


Notes: 1. In the left panel, figures are current profits based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*, and exclude "finance and insurance." Figures from 2009/Q2 onward exclude pure holding companies. Small and medium-sized firms are firms with a capitalization of 10 million yen or more but less than 1 billion yen, while large firms are firms with a capitalization of 1 billion yen or more.

2. In the right panel, the *Tankan* figures include software and R&D investments and exclude land purchasing expenses. The figures are for all industries including financial institutions.

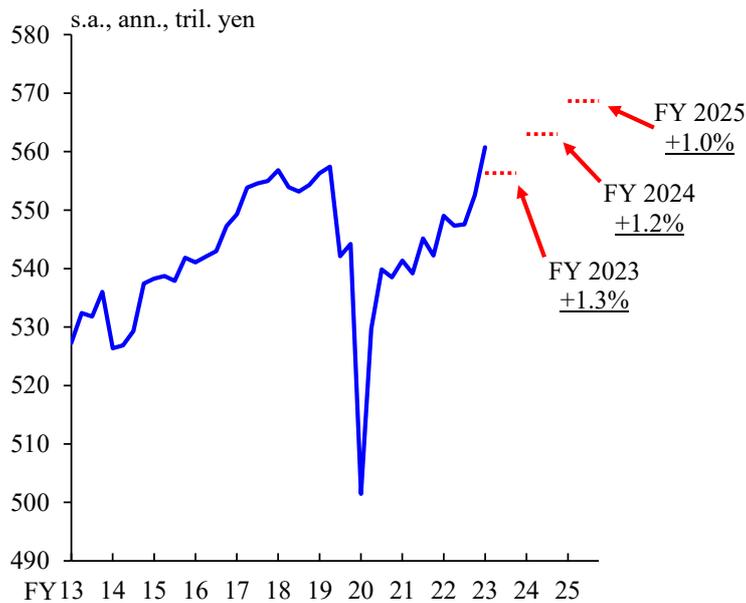
Sources: Cabinet Office; Ministry of Finance; Bank of Japan.

Economic Activity and Prices in Major Economies



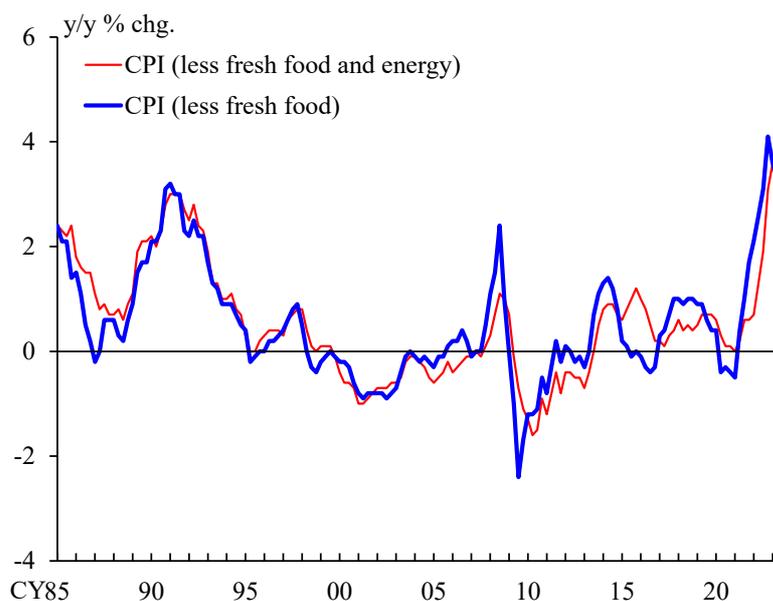
Notes: 1. In the left panel, figures for Japan are the CPI for all items less fresh food, excluding the effects of the consumption tax hike, etc. Those for the United States are the CPI for all items. Those for the euro area are the HICP for all items.
 2. In the middle panel, figures for Japan are the rates applied to financial institutions' current accounts (the Policy-Rate Balances) at the Bank of Japan. Those for the United States are the medians of the target ranges for the federal funds rate. Those for the euro area are the rates on the deposit facility.
 3. In the right panel, figures for IMF forecasts are as of July 2023.
 Sources: Bloomberg; Eurostat; IMF; Ministry of Internal Affairs and Communications; U.S. Bureau of Labor Statistics.

BOJ Forecasts for Real GDP



Note: The forecasts presented are the medians of the Policy Board members' forecasts in the July 2023 Outlook Report. The values of real GDP for fiscal 2023 onward are calculated by multiplying the actual figure for fiscal 2022 by all successive projected growth rates for each year.
 Sources: Cabinet Office; Bank of Japan.

Consumer Prices



Note: The CPI figures are Bank staff estimates and exclude the effects of the consumption tax hikes, policies concerning the provision of free education, travel subsidy programs, and changes in mobile phone charges.
 Source: Ministry of Internal Affairs and Communications.

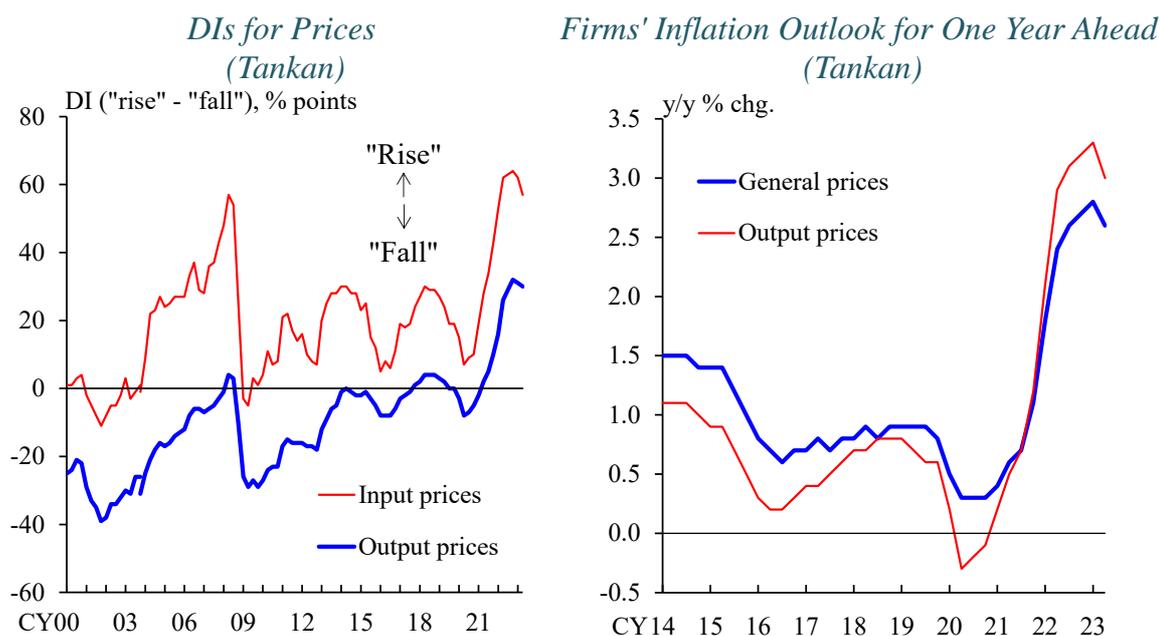
Various Indicators of Consumer Prices

		CY 16	17	18	19	20	21	22	23	y/y % chg. July 2023
All items		[Stacked bar chart showing inflation components]								3.3
Less fresh food		[Stacked bar chart showing inflation components]								3.0
Energy		[Stacked bar chart showing inflation components]								-8.7
Less fresh food and energy		[Stacked bar chart showing inflation components]								4.2
Goods <43>		[Stacked bar chart showing inflation components]								7.3
General services (less housing rent) <22>		[Stacked bar chart showing inflation components]								4.3
Administered prices <15>		[Stacked bar chart showing inflation components]								0.7
Housing rent (private and imputed rent) <20>		[Stacked bar chart showing inflation components]								0.1
Measures of core inflation	Trimmed mean	[Stacked bar chart showing inflation components]								3.3
	Weighted median	[Stacked bar chart showing inflation components]								1.6
	Mode	[Stacked bar chart showing inflation components]								3.0

■ Less than 0%
 ■ 0% to under 2%
 ■ 2% to under 3%
 ■ 3% and over

Notes: 1. Figures for "less fresh food," "less fresh food and energy," and "measures of core inflation" are based on Bank staff calculations using the CPI excluding the effects of the consumption tax hike, policies concerning the provision of free education, travel subsidy programs, and changes in mobile phone charges. Figures from April 2020 onward also exclude the effects of measures such as free higher education introduced in April 2020.
 2. Figures in angular brackets show the weight of each component in the 2020-base CPI (less fresh food and energy).
 3. Figures for "energy" consist of those for petroleum products, electricity, and manufactured and piped gas charges. Figures for "administered prices," which exclude energy, consist of those for public services and water charges.
 Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

Changes in Firms' Price-Setting Behavior



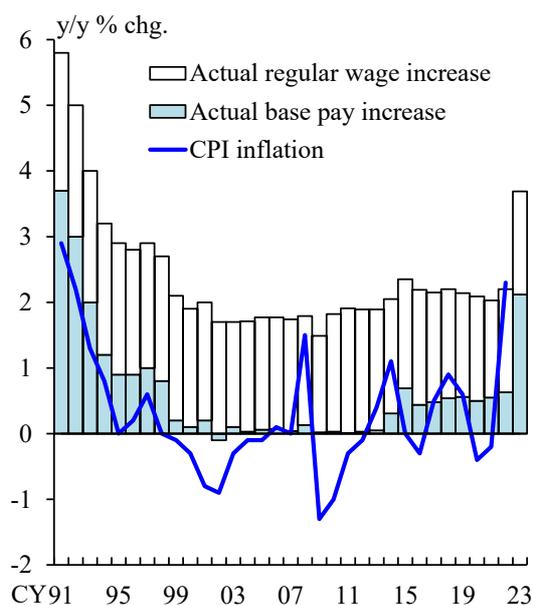
Notes: 1. In the left panel, figures are for all industries and enterprises. There is a discontinuity in the data for December 2003 due to a change in the survey framework.
 2. In the right panel, figures are averages of all industries and enterprises.
 Source: Bank of Japan.

BOJ Forecasts for the CPI



Notes: 1. Figures are the CPI for all items less fresh food, excluding the effects of the consumption tax hikes, etc.
 2. The locations of ●, △, and ▼ in the chart indicate the figures for each Policy Board member's forecasts. The risk balance assessed by each Policy Board member is shown by the following shapes: ● indicates that a member assesses "upside and downside risks as being generally balanced," △ indicates that a member assesses "risks are skewed to the upside," and ▼ indicates that a member assesses "risks are skewed to the downside." The dotted lines show the medians of the Policy Board members' forecasts presented in the July 2023 Outlook Report.
 Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

Prices and Wages



Notes: 1. Figures for CPI inflation are for all items less fresh food, excluding the effects of the consumption tax hikes, etc.
 2. Figures for "actual base pay increase" and "actual regular wage increase" from 1991 to 2014 are those published by the Central Labour Relations Commission, while those from 2015 to 2023 are figures released by the Japanese Trade Union Confederation (Rengo).
 Sources: Central Labour Relations Commission; Ministry of Internal Affairs and Communications; Rengo.

Price Stability Target of 2 Percent

Price Stability

A state where various economic agents including households and firms may make decisions regarding such economic activities as consumption and investments without being concerned about the fluctuations in the general price level.

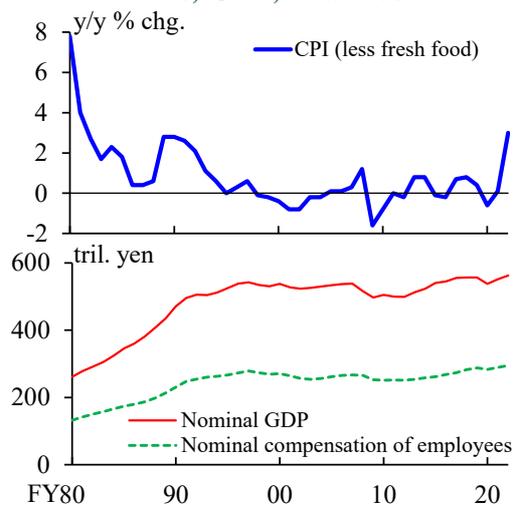
Virtuous Cycle of Japan's Economy

An environment where the economy improves in a balanced and sustainable manner, accompanied by increases in employment, wages, and corporate profits, consequently leading to moderate inflation.

Reasons for Aiming at 2 Percent Inflation

- (1) The measurement bias in the CPI (upward bias)
- (2) The safety margin that acts as a buffer against the risk of a vicious cycle of declining prices and deteriorating economic activity (ensuring room to reduce interest rates)
- (3) 2 percent as a global standard

Prices, GDP, and Income



Note: Figures for CPI (less fresh food) exclude the effects of the consumption tax hikes, etc.
 Sources: Cabinet Office; Ministry of Internal Affairs and Communications.

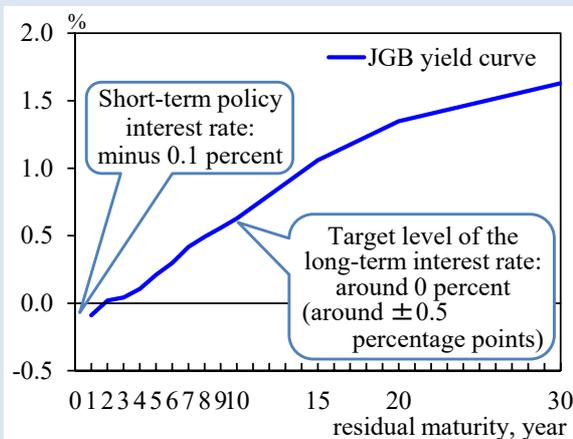
QQE with Yield Curve Control

Stance of Monetary Policy Conduct

With extremely high uncertainties surrounding economies and financial markets at home and abroad, the Bank will patiently continue with monetary easing while nimbly responding to developments in economic activity and prices as well as financial conditions. By doing so, it will aim to achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases.

The Bank will continue with QQE with Yield Curve Control, aiming to achieve the price stability target, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds 2 percent and stays above the target in a stable manner. The Bank will continue to maintain the stability of financing, mainly of firms, and financial markets, and will not hesitate to take additional easing measures if necessary.

(1) Yield Curve Control

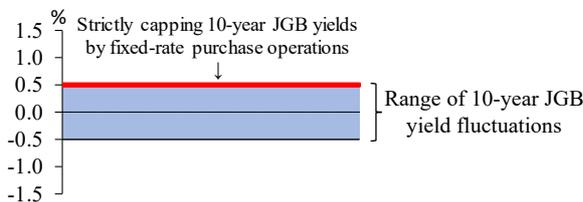


(2) Inflation-Overshooting Commitment

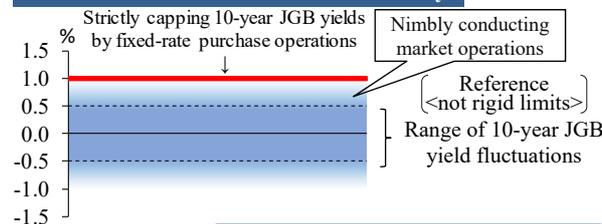
Conducting Yield Curve Control (YCC) with Greater Flexibility

- The Bank judges that sustainable and stable achievement of the price stability target of 2 percent has not yet come in sight, and thus patiently continues with monetary easing.
- With extremely high uncertainties for economic activity and prices, the Bank enhances the sustainability of monetary easing by conducting YCC with greater flexibility.

Previous Conduct of YCC



Conduct of YCC with Greater Flexibility

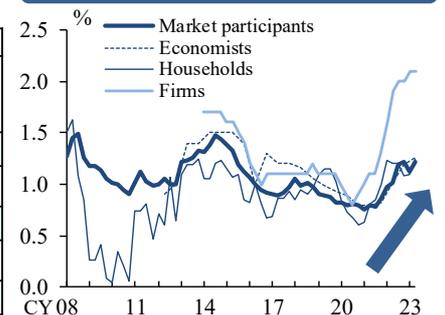


Outlook for Prices

	y/y % chg.	
	CPI (all items less fresh food)	(Reference) CPI (all items less fresh food and energy)
Fiscal 2023	+2.5	+3.2
Forecasts made in Apr. 2023	+1.8	+2.5
Fiscal 2024	+1.9	+1.7
Forecasts made in Apr. 2023	+2.0	+1.7
Fiscal 2025	+1.6	+1.8
Forecasts made in Apr. 2023	+1.6	+1.8

Note: Figures indicate the medians of the Policy Board members' forecasts (point estimates).

Inflation Expectations



Note: Figures for market participants, economists, households, and firms are from the *QUICK Monthly Market Survey*, the *ESP Forecast*, the *Opinion Survey on the General Public's Views and Behavior*, and the *Tankan*, respectively.

Enhancing the sustainability of monetary easing by conducting YCC with greater flexibility

- If upside risks to Japan's economic activity and prices materialize
 - Decline in real interest rates
 - Mitigating the effects on the functioning of bond markets, etc.
- If downside risks to Japan's economic activity and prices materialize
 - Decline in long-term interest rates

Virtuous Cycle between Wages and Prices

