

# Ensuring Achievement of the Price Stability Target of 2 Percent

*Speech at the Kisaragi-kai Meeting in Tokyo*

November 5, 2014

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*Governor of the Bank of Japan*

Chart 1

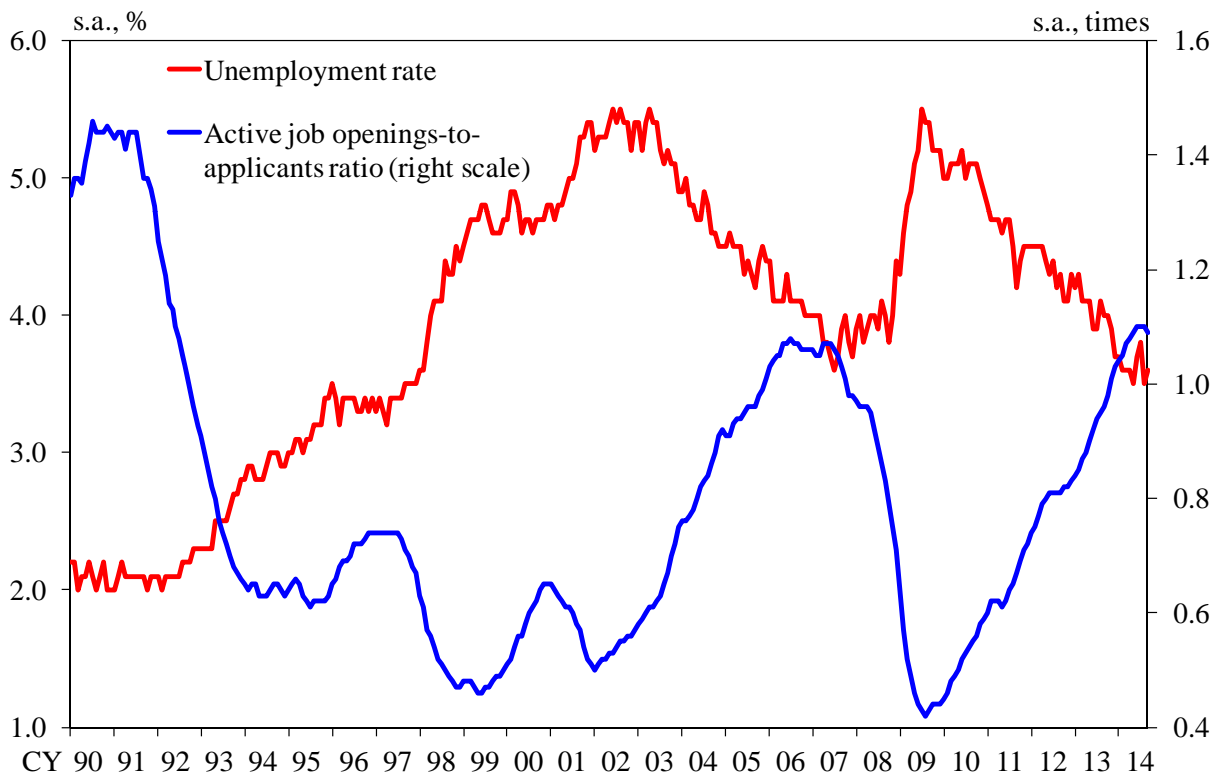
## Outlook for Economic Activity and Prices (as of October 2014)

y/y % chg.

	Real GDP	CPI (all items less fresh food)	Excluding the effects of the consumption tax hikes
Fiscal 2014	<b>+0.5</b>	+3.2	<b>+1.2</b>
Forecasts made in July 2014	+1.0	+3.3	+1.3
Fiscal 2015	<b>+1.5</b>	+2.4	<b>+1.7</b>
Forecasts made in July 2014	+1.5	+2.6	+1.9
Fiscal 2016	<b>+1.2</b>	+2.8	<b>+2.1</b>
Forecasts made in July 2014	+1.3	+2.8	+2.1

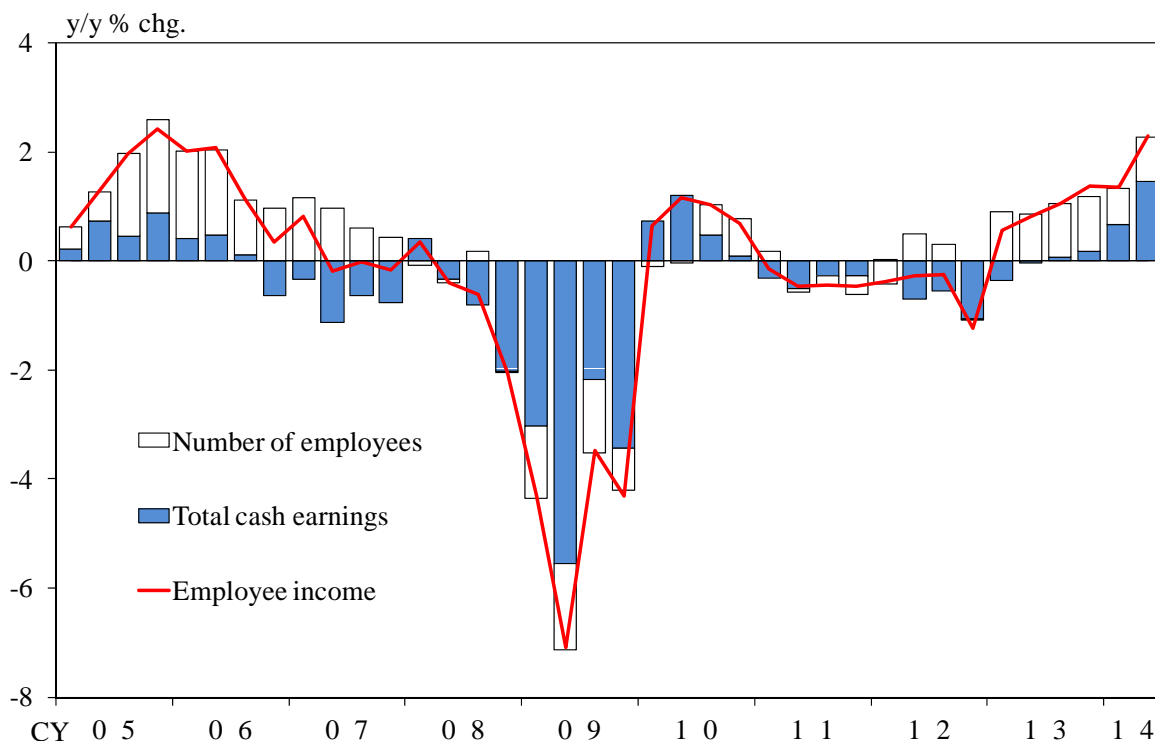
Note: Figures indicate the median of the Policy Board members' forecasts (point estimates).  
Source: Bank of Japan.

## Labor Supply and Demand



Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

## Employee Income



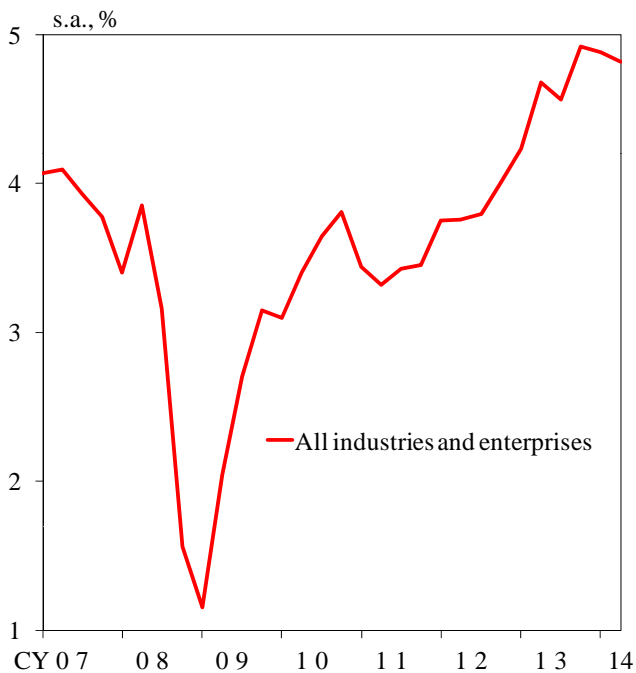
Notes: 1. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.

2. Figures for "employee income" are calculated as the "number of employees" (Labour Force Survey) times "total cash earnings" (Monthly Labour Survey).

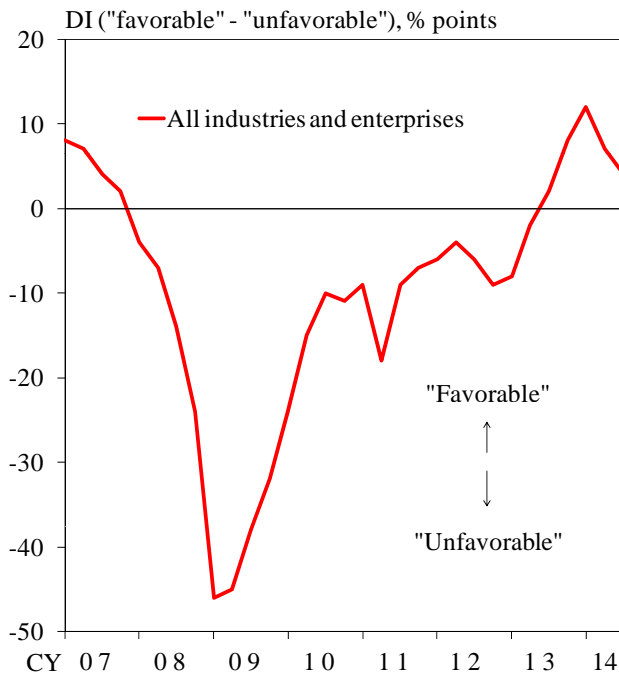
Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

# Corporate Profits and Business Sentiment

*Ratio of Current Profits to Sales*



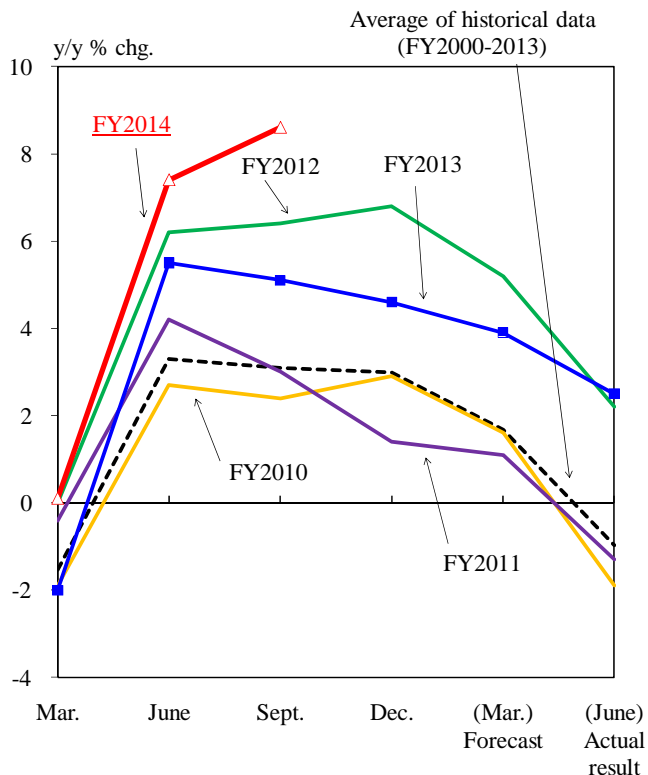
*Tankan: Business Conditions DI*



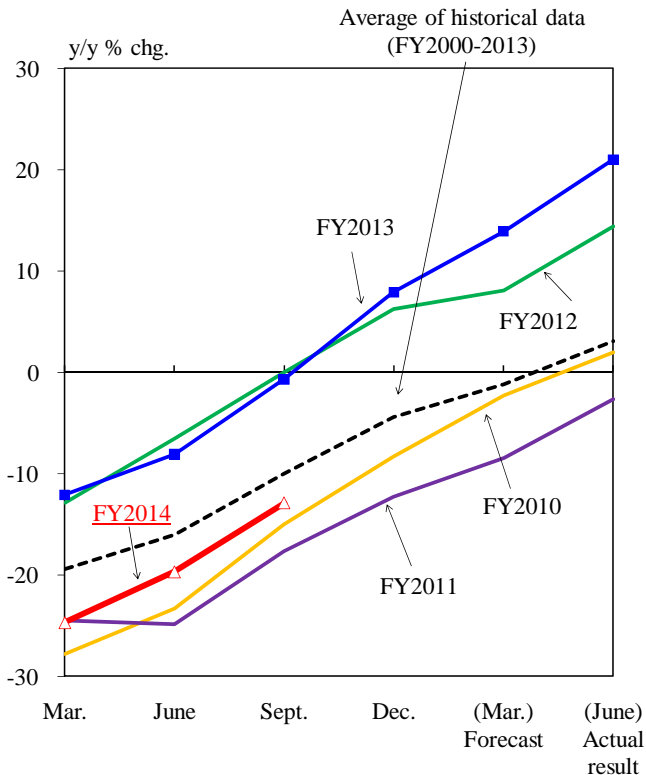
Sources: Ministry of Finance; Bank of Japan.

# Tankan: Business Fixed Investment Plans

*Large Enterprises*

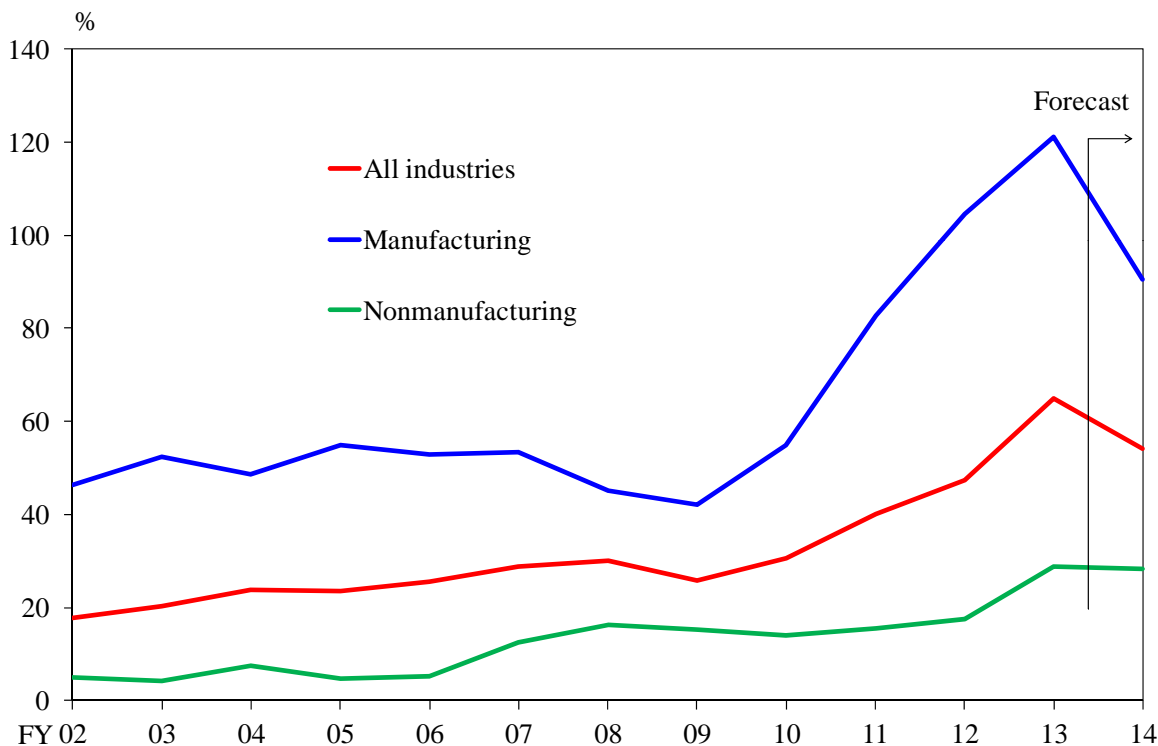


*Small Enterprises*



Note: Figures include land purchasing expenses but exclude software investment.  
Source: Bank of Japan.

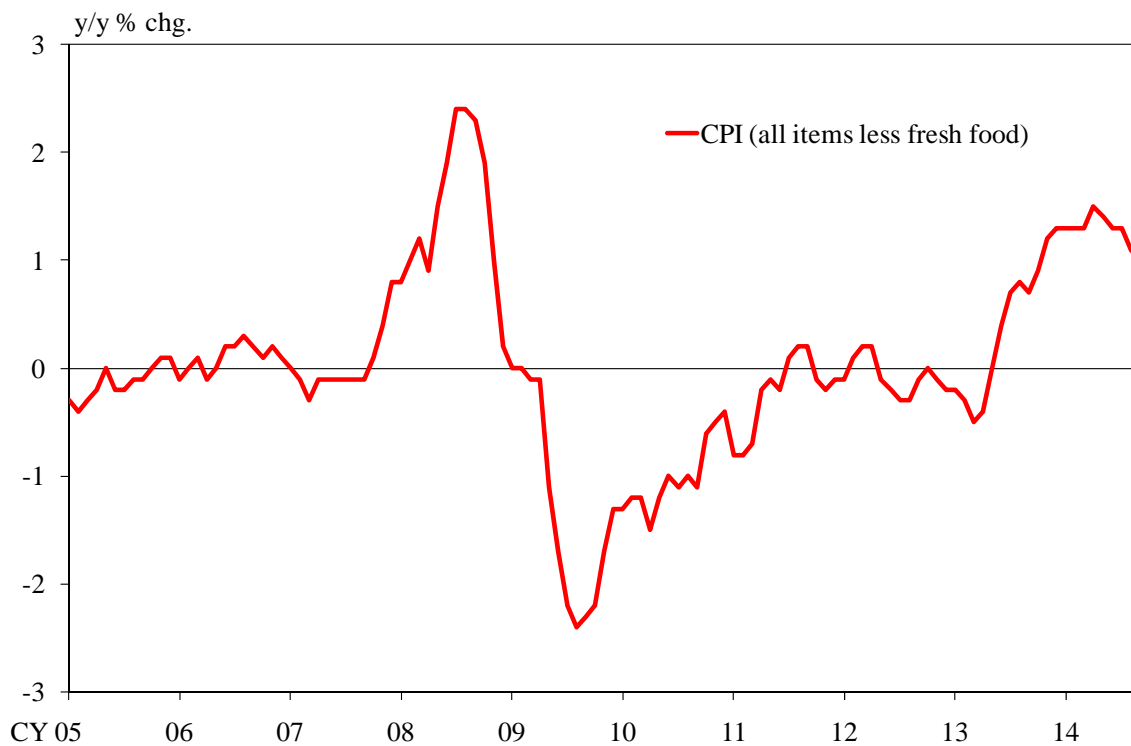
## Overseas/Domestic Ratio of Business Fixed Investment



Note: Figures are the ratio of overseas business fixed investment on a consolidated basis to domestic business fixed investment on a non-consolidated base.

Source: Development Bank of Japan.

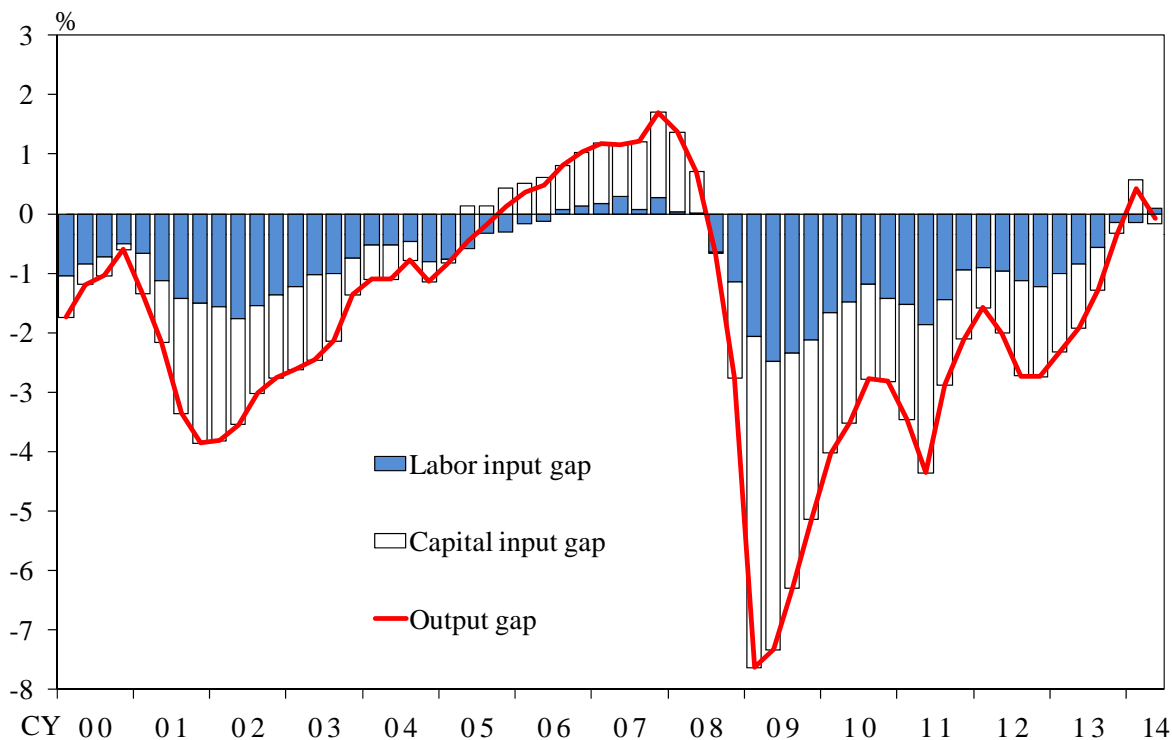
## Consumer Prices



Note: Figures from April 2014 onward are calculated to adjust the direct effects of the consumption tax hike.

Source: Ministry of Internal Affairs and Communications.

## Output Gap

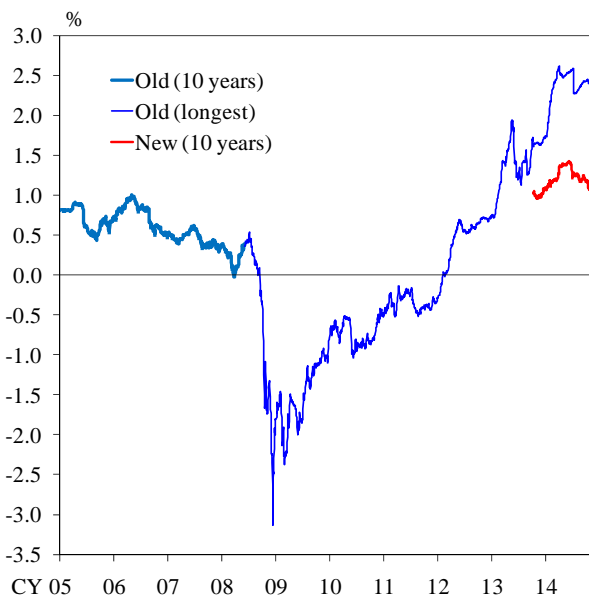


Note: The output gap is estimated by the Research and Statistics Department, Bank of Japan. For the estimation procedures, see "The New Estimates of Output Gap and Potential Growth Rate," Bank of Japan Review Series, 2006-E-3.

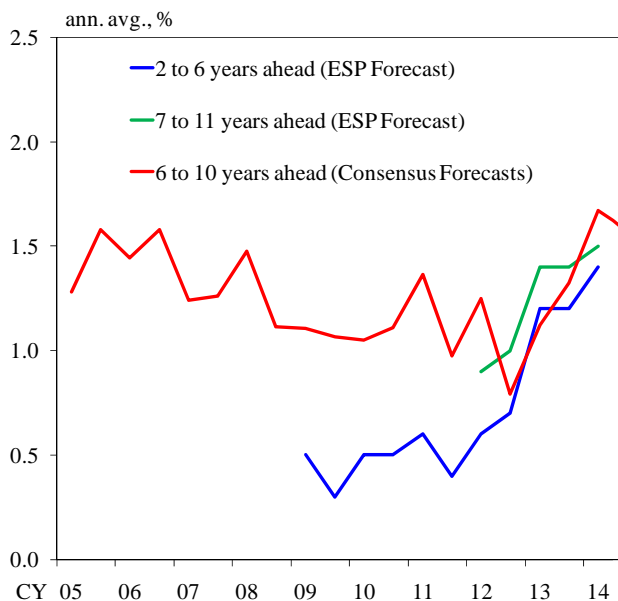
Sources: Cabinet Office; Bank of Japan, etc.

## Inflation Expectations

### Market Participants (BEI for Inflation-Indexed JGBs)



### Economists

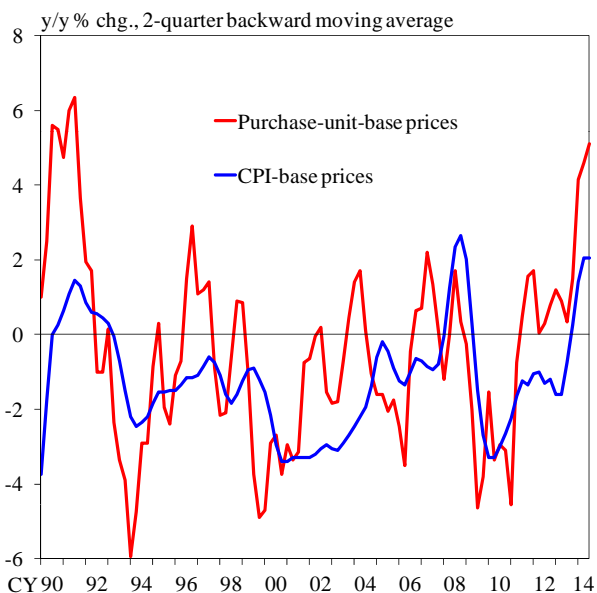


Notes: 1. BEI (break-even inflation) rates are yield spreads between fixed-rate coupon-bearing JGBs and inflation-indexed JGBs. Inflation-indexed JGBs issued since October 2013 are designated as "new," while the rest are designated as "old." Figures for "old (longest)" are calculated using yield data for issue No.16 of the inflation-indexed JGBs, which matures in June 2018.  
 2. Figures for the Consensus Forecasts are compiled every January, April, July, and October. Those up through April 2014 are compiled every April and October.  
 3. Figures for the ESP Forecast are compiled every June and December, and exclude the effects of the consumption tax hikes.

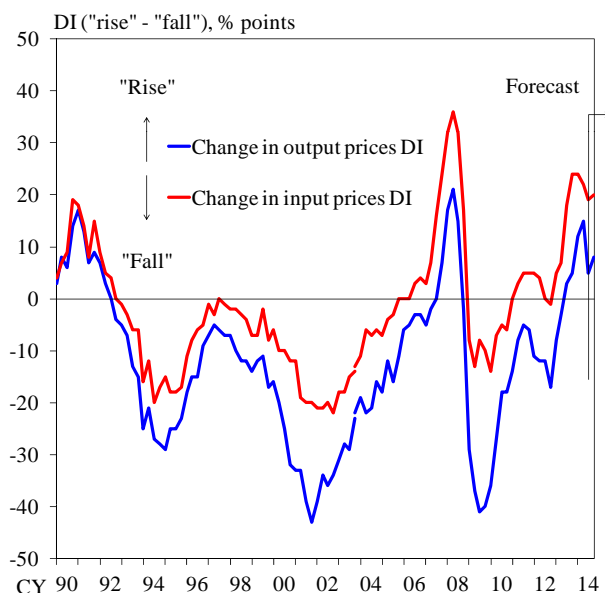
Sources: Bloomberg; Consensus Economics Inc.; JCER.

# Household Consumption and Firms' Price-Setting Behavior

*CPI and Purchase-Unit-Base Prices  
(Family Income and Expenditure Survey)*



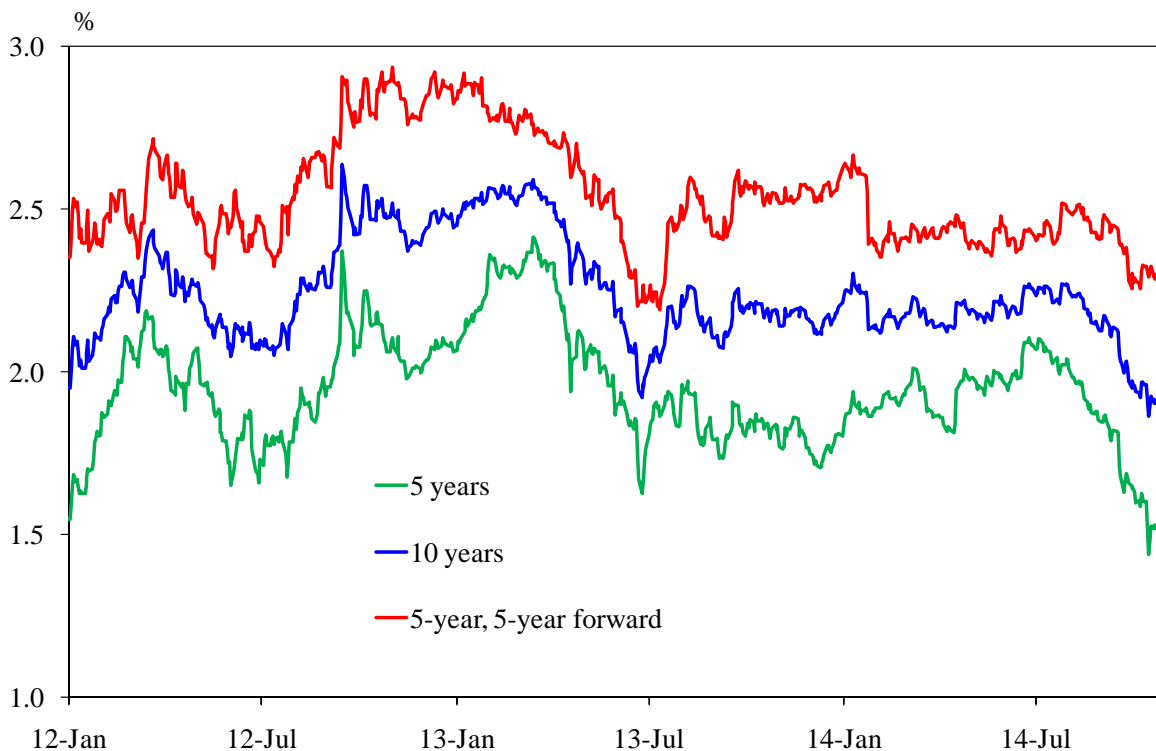
*Tankan: Changes in Output and Input Prices  
DI in the Retail Sector (Large Enterprises)*



Notes: 1. Items continuously available in both the CPI and the "Family Income and Expenditure Survey" are selected. The selected items are goods excluding fresh food, petroleum products and electricity, manufactured & piped gas & water charges. Hence they mainly consist of food products, agricultural, aquatic & livestock products (less fresh food), clothes, and durable goods.  
2. Figures for the purchase-unit-base prices and CPI-base prices are adjusted to exclude the estimated effect of changes in the consumption tax rate. Figures for 2014/Q3 are July-August averages.

Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

# Inflation Expectations in the United States (BEI)



Source: Bloomberg.

## Expansion of the Quantitative and Qualitative Monetary Easing

Accelerating the annual pace of increase in the monetary base  
from about 60-70 trillion yen to

**" 80 trillion yen "**

Increasing the Bank's JGB holdings at an annual pace of  
about **80 trillion yen**:

**" + 30 trillion yen "**

Extending the average remaining maturity of JGB purchases  
to **about 7-10 years**:

**" + 3 years "**

Accelerating the pace of purchases of ETFs and J-REITs:

**" Tripled "**



- Pre-empt manifestation of a risk that conversion of deflationary mindset, which has so far been progressing steadily, might be delayed
- Maintain the improving **momentum of expectation formation**