

# Japan's Economy and Monetary Policy

*Speech at a Meeting with Business Leaders in Kyoto*

August 2, 2018

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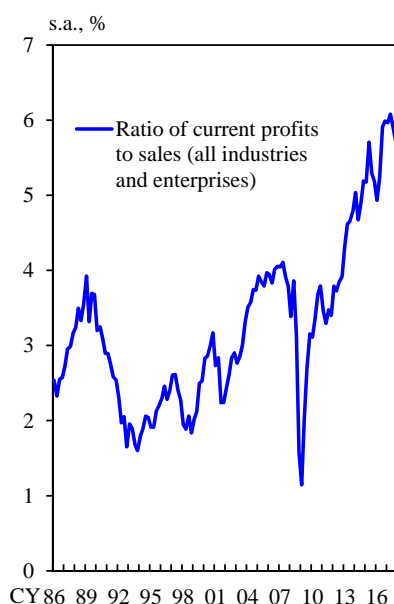
Chart 1

## Japan's Economy

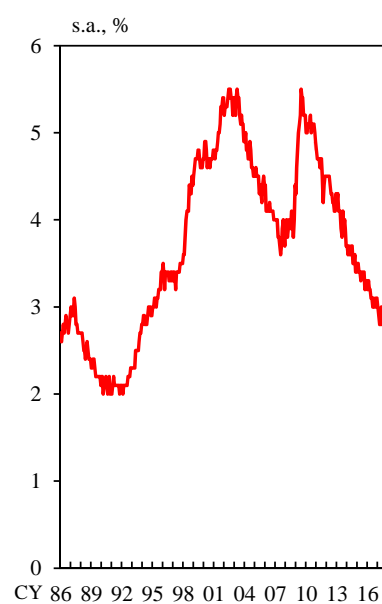
### *Length of Economic Recovery Period*

Rank	Period	Length
1	February 2002- February 2008	73 months
2	December 2012- (as of May 2018)	66 months
3	November 1965- July 1970 ( <i>Izanagi Boom</i> )	57 months
4	December 1986- February 1991 ( <i>Bubble Boom</i> )	51 months
5	November 1993- May 1997	43 months

### *Corporate Profits*



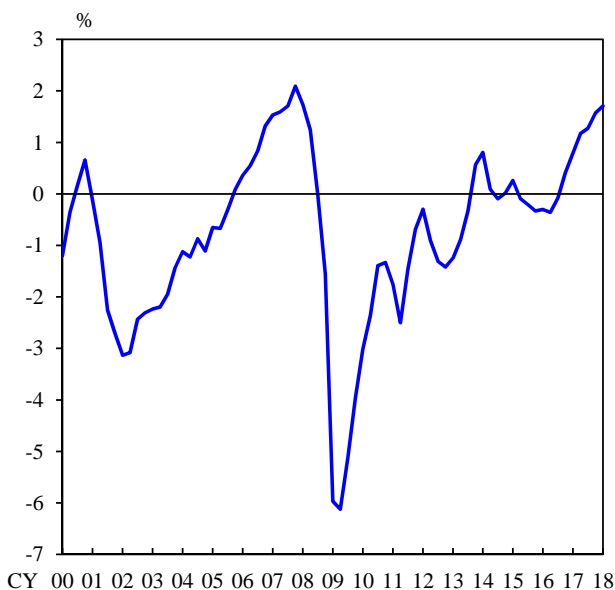
### *Unemployment Rate*



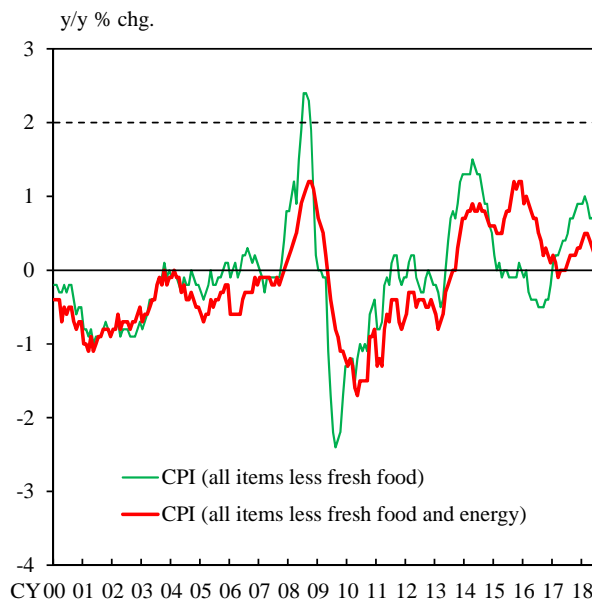
Note: Figures for corporate profits are based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*. Excluding "finance and insurance."  
Sources: Cabinet Office; Ministry of Finance; Ministry of Internal Affairs and Communications.

# Output Gap and Consumer Prices

*Output Gap*



*Consumer Prices*



Notes: 1. The output gap is based on BOJ staff estimations.  
 2. The CPI figures are adjusted for changes in the consumption tax rate.  
 Sources: Bank of Japan; Ministry of Internal Affairs and Communications.

## Why Is the Bank Aiming at 2 Percent Inflation?

*Three Reasons*

Upward bias in the CPI

Buffer for monetary policy

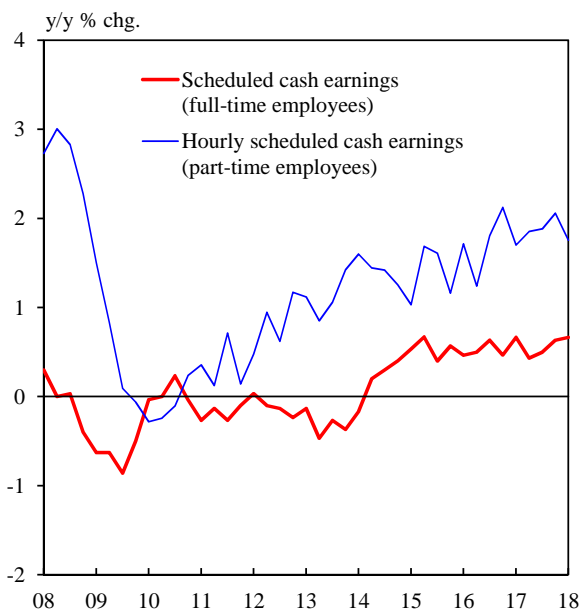
2 percent as a global standard

*Price Stability in Advanced Economies*

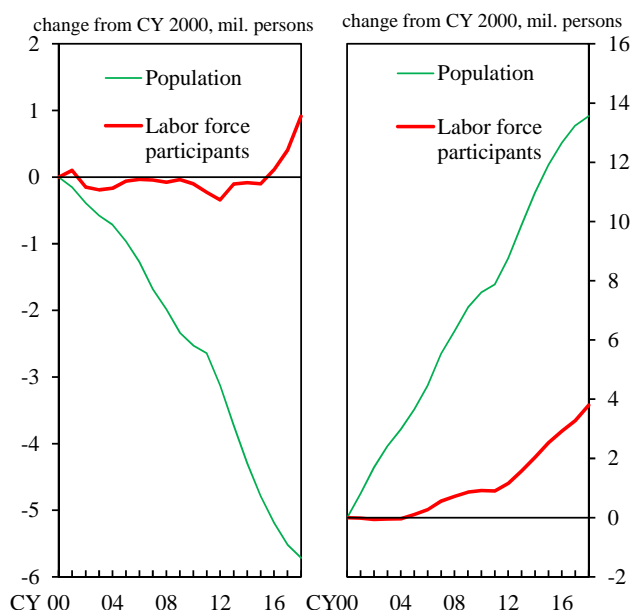
Country/Region	Definition	Indicator Numerical expression (y/y chg.)
United States (FRB)	Longer-run goal	PCE deflator 2%
Euro area (ECB)	Quantitative definition	HICP Below, but close to, 2%
United Kingdom (BOE)	Target	CPI 2%
Japan (BOJ)	Price stability target	CPI 2%

# Firms' Cautious Wage-Setting Stance

## Wage Increases

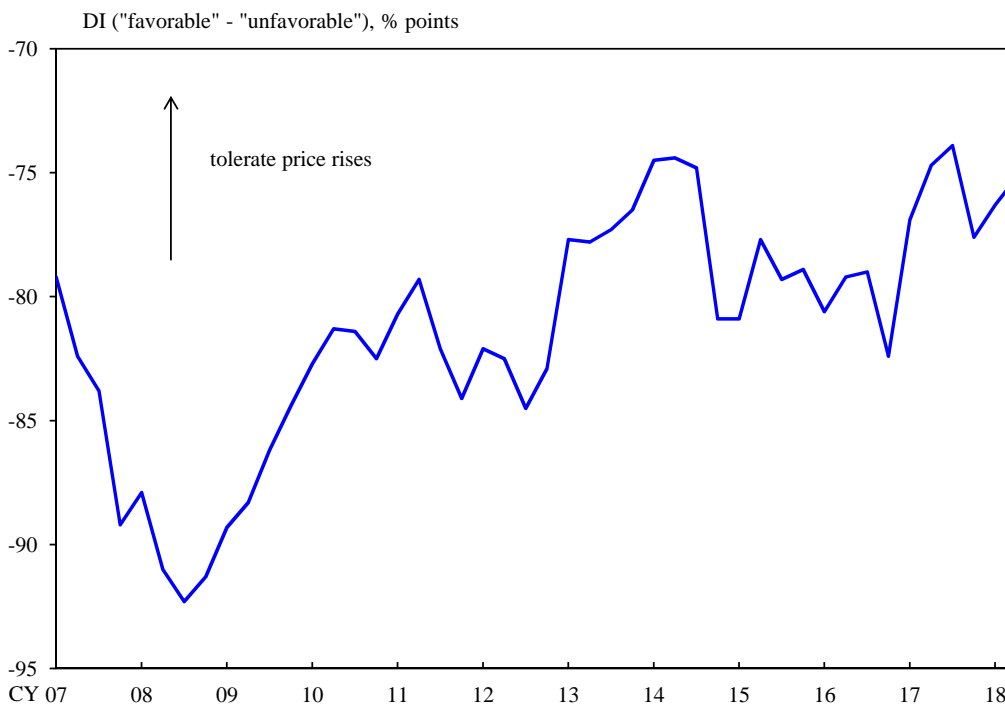


## Labor Force Participants Women (aged 15-64)      Seniors (aged 65 and over)



Notes: 1. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February in the wage graph. Wage figures from 2017/Q1 onward are based on existing respondents (continuing observation) following the sample revision of the *Monthly Labour Survey* in January 2018.  
 2. Figures for labor force participants and population for 2018 are January-May averages on a seasonally adjusted basis.  
 Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

# Households' Tolerance of Price Rises

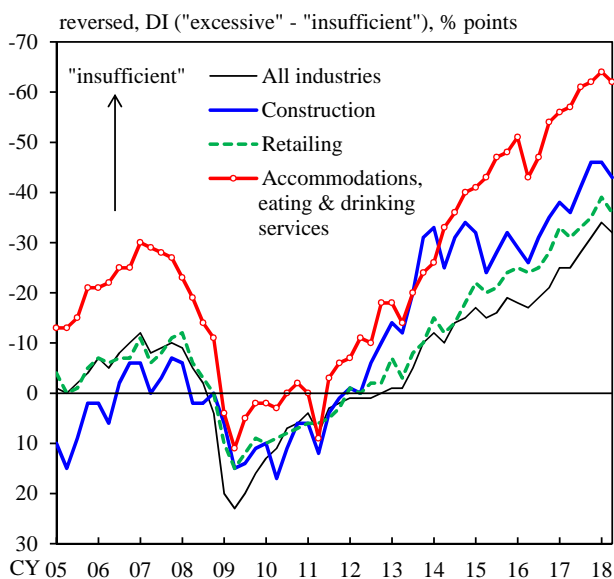


Note: Comments on the rise in prices are chosen among three alternatives: "rather favorable," "difficult to say," and "rather unfavorable."  
 Source: Bank of Japan, *Opinion Survey on the General Public's Views and Behavior*.

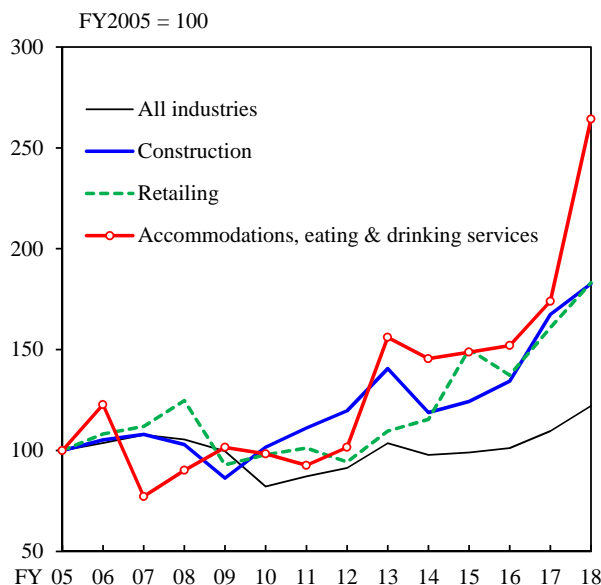
# Firms' Cautious Price-Setting Stance

## Labor-Saving Investment in Sectors Facing Acute Labor Shortage

Employment Conditions DI (Tankan)



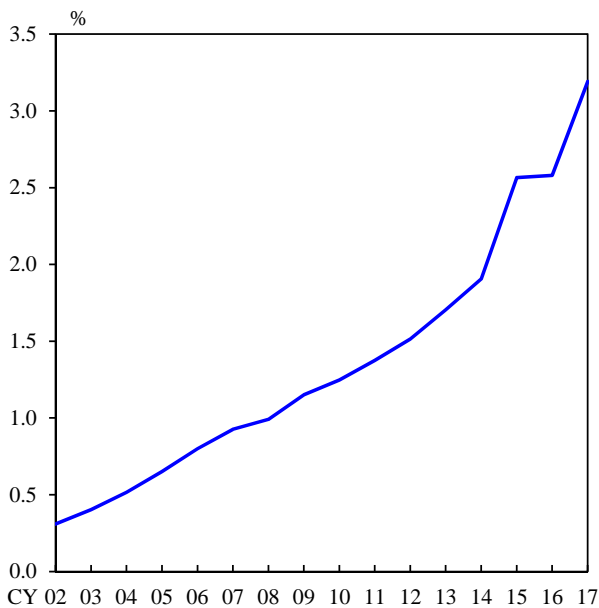
Software Investment (Tankan)



Note: Figures for software investment for fiscal 2018 are based on plans in the June 2018 survey.  
Source: Bank of Japan.

# Intensifying Competition

Online-Shopping Ratio to Total Expenditure



Interview Responses by Firms  
- The Bank's Regional Economic Report (Jul. 2018)-

Since competitors have intensified their price-cutting strategies, we may also cut sales prices further in the future (a supermarket [Sendai]).

Consumers have a deep-rooted cost-saving mentality and we are losing customers to low-price retail businesses such as drugstores and online retailers (a supermarket [Kyoto]).

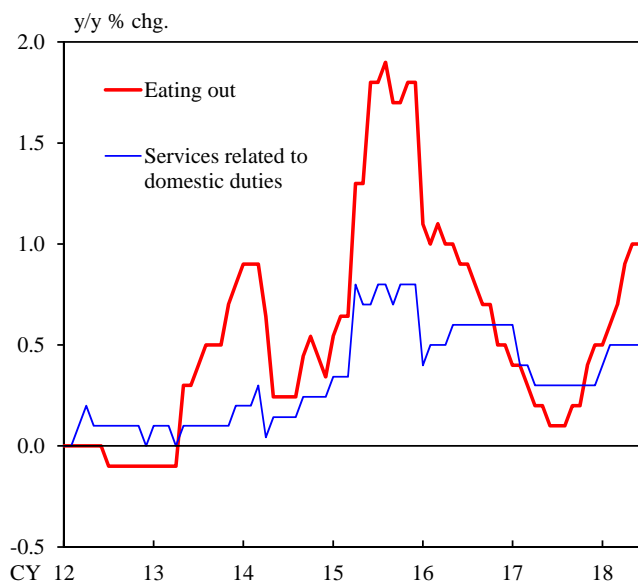
We are feeling the threat of other types of retail businesses that have intensified their price-cutting strategies at the expense of profits, and thus we have cut the sales prices of several hundred items, especially private-brand products (a supermarket [Hiroshima]).

Notes: 1. Figures are calculated using "total expenditure on goods and services ordered over the Internet" from the Survey of Household Economy and "consumption expenditures" from the Family Income and Expenditure Survey.

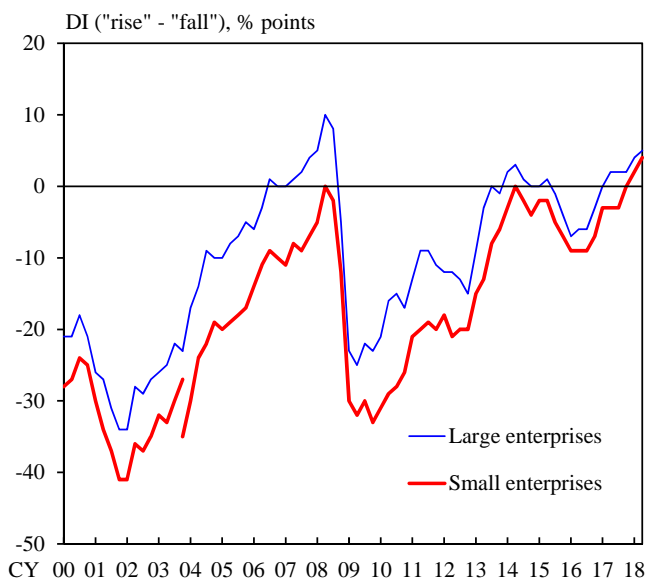
2. In the right chart, the parentheses show the industry of the interviewee and the Bank branch.  
Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

## Moves to Raise Sales Prices

### Spread of Wage Increases to Prices



### Output Prices DI (Tankan)



Notes: 1. The CPI figures are adjusted for changes in the consumption tax rate.

2. There is a discontinuity in the data of the output prices DI in the December 2003 survey due to a change in the survey framework.

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

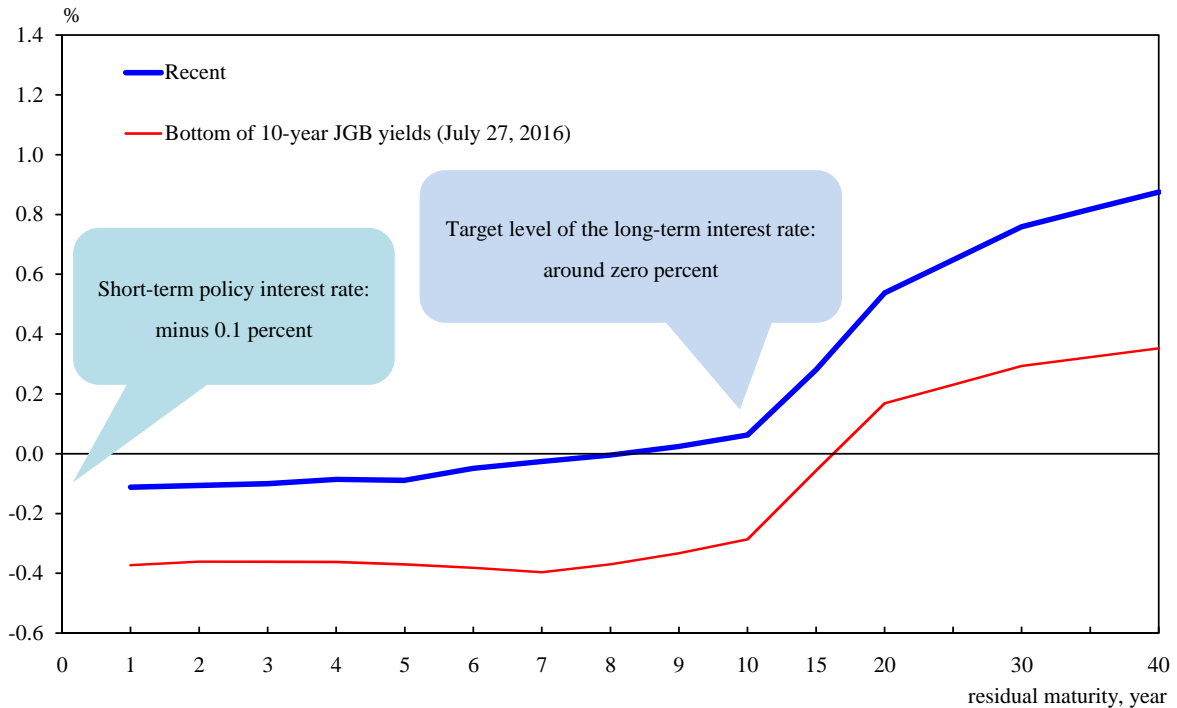
## Outlook for Economic Activity and Prices (July 2018 Outlook Report)

the medians of the Policy Board members' forecasts, y/y % chg.

	Real GDP	CPI (all items less fresh food)
Fiscal 2018	+1.5	+1.1
Forecasts made in April 2018	+1.6	+1.3
Fiscal 2019	+0.8	+1.5
Forecasts made in April 2018	+0.8	+1.8
Fiscal 2020	+0.8	+1.6
Forecasts made in April 2018	+0.8	+1.8

Note: Figures for the CPI (all items less fresh food) exclude the direct effects of the consumption tax hike.  
Source: Bank of Japan.

# Yield Curve Control



Source: Bloomberg.

## Strengthening the Framework for Continuous Powerful Monetary Easing

Taking more time than expected to achieve the price stability target of 2 percent. Maintaining the output gap as long as possible within positive territory is appropriate.



### Persistently Continuing with Powerful Monetary Easing

#### Forward guidance for policy rates

"The Bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, taking into account uncertainties regarding economic activity and prices including the effects of the consumption tax hike scheduled to take place in October 2019."

⇒ Strengthening the commitment to achieving the price stability target

#### Enhancing the sustainability of "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control"

**Long-term interest rate:** The Bank maintains the target level of around zero percent. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices.

**Purchases of ETFs:** The Bank maintains the annual pace of increase in the amount outstanding of about 6 trillion yen. While doing so, the Bank may increase or decrease the amount of purchases depending on market conditions.

etc.



Achieving the price stability target of 2 percent at the earliest possible time while securing stability in economic and financial conditions.