



Economic Activity, Prices, and Monetary Policy in Japan

Speech at a Meeting with Business Leaders in Kanagawa

September 6, 2018

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Global Economic Outlook by International Organizations

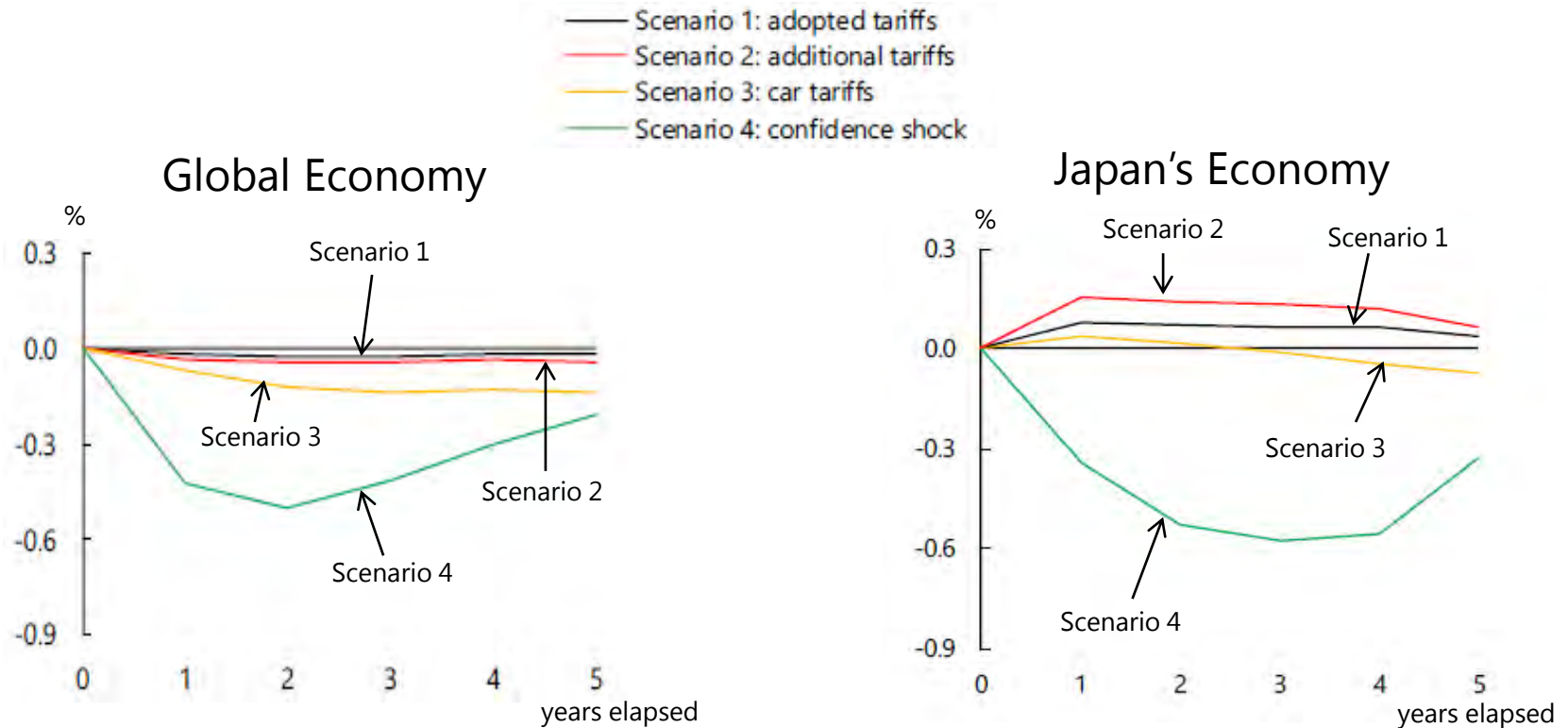
y/y % chg.

		IMF			OECD		
		2017	2018	2019	2017	2018	2019
World		3.7	3.9	3.9	3.7	3.8	3.9
Advanced Economies	Japan	1.7	1.0	0.9	1.7	1.2	1.2
	United States	2.3	2.9	2.7	2.3	2.9	2.8
	Euro area	2.4	2.2	1.9	2.6	2.2	2.1
	Germany	2.5	2.2	2.1	2.5	2.1	2.1
	France	2.3	1.8	1.7	2.3	1.9	1.9
	United Kingdom	1.7	1.4	1.5	1.8	1.4	1.3
Emerging Economies	China	6.9	6.6	6.4	6.9	6.7	6.4
	Brazil	1.0	1.8	2.5	1.0	2.0	2.8
	India	6.7	7.3	7.5	6.5	7.4	7.5
	Russia	1.5	1.7	1.5	1.5	1.8	1.5

Note: Data for 2017 are actual figures, otherwise projections. For India, data and forecasts are presented on a fiscal year basis.

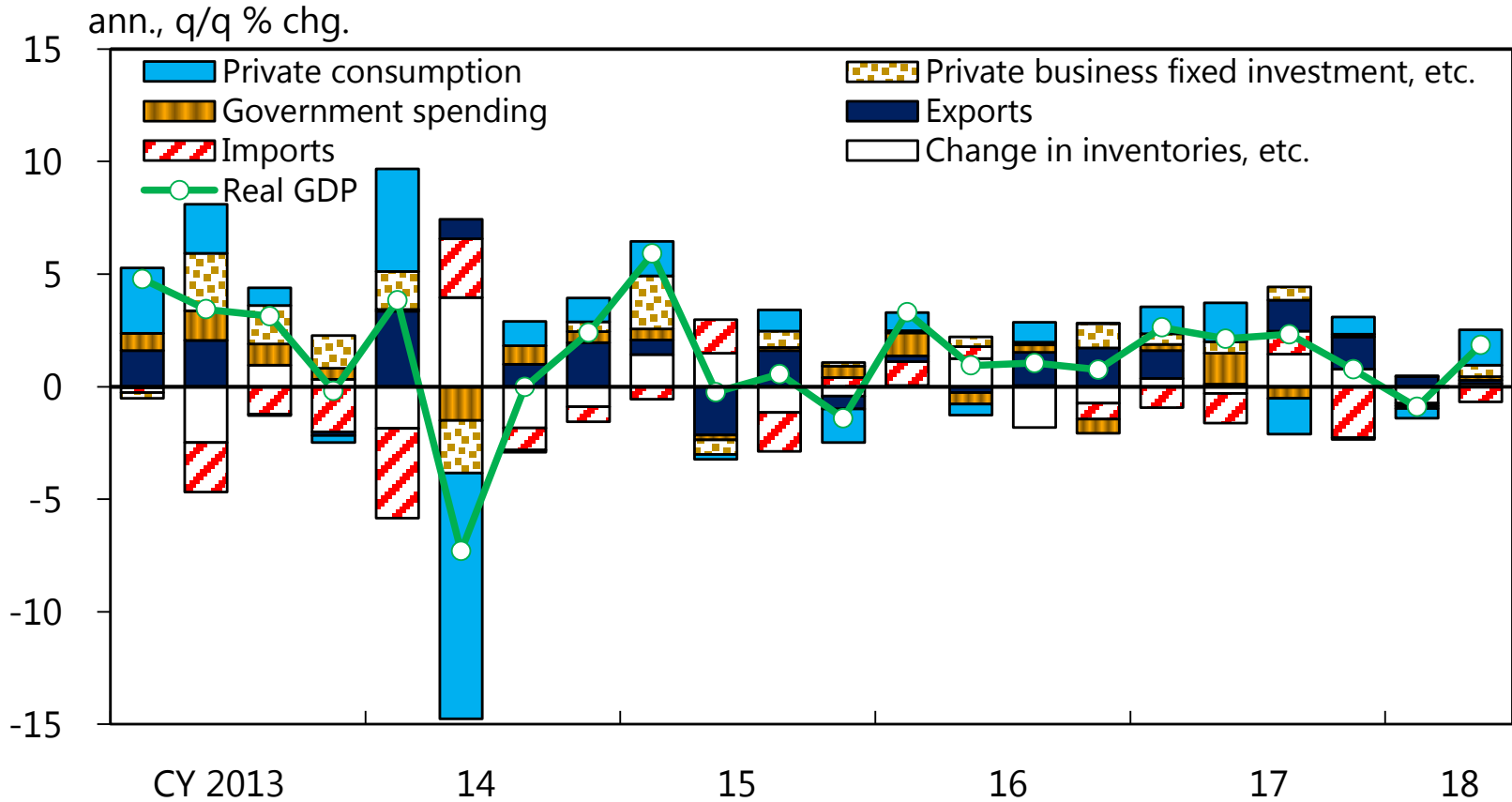
Source: IMF, "World Economic Outlook Update, July 2018"; OECD, "Economic Outlook, May 2018."

Impact of Trade Friction on Economic Growth (Simulation Analysis by the IMF)



- Notes: 1. In both graphs, vertical axes show deviation of real GDP level from baseline in percent, and horizontal axes show years elapsed from the imposition of tariffs.
2. "Scenario 1: adopted tariffs" incorporates tariffs that have already been implemented by the United States, with retaliation of equivalent size. "Scenario 2: additional tariffs" adds to Scenario 1 an additional 10 percent tariff on US\$200 billion worth of U.S. imports from China, with retaliation of equivalent size. "Scenario 3: car tariffs" adds to Scenario 2 a 25 percent increase in tariffs on U.S. imports of vehicles, with retaliation from all affected regions on an equivalent amount of U.S. exports. "Scenario 4: confidence shock" introduces a temporary global shock to confidence on top of Scenario 3. It is assumed that advanced economies see risk premiums increase by 30 basis points -- about half the increase observed during the "taper tantrum" -- around two years after the additional tariffs, while emerging economies would face a shock that is twice as large.

Real GDP Growth and Breakdown by Component



Source: Cabinet Office, "Quarterly Estimates of GDP for April-June 2018 (First Preliminary Estimates)."

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

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

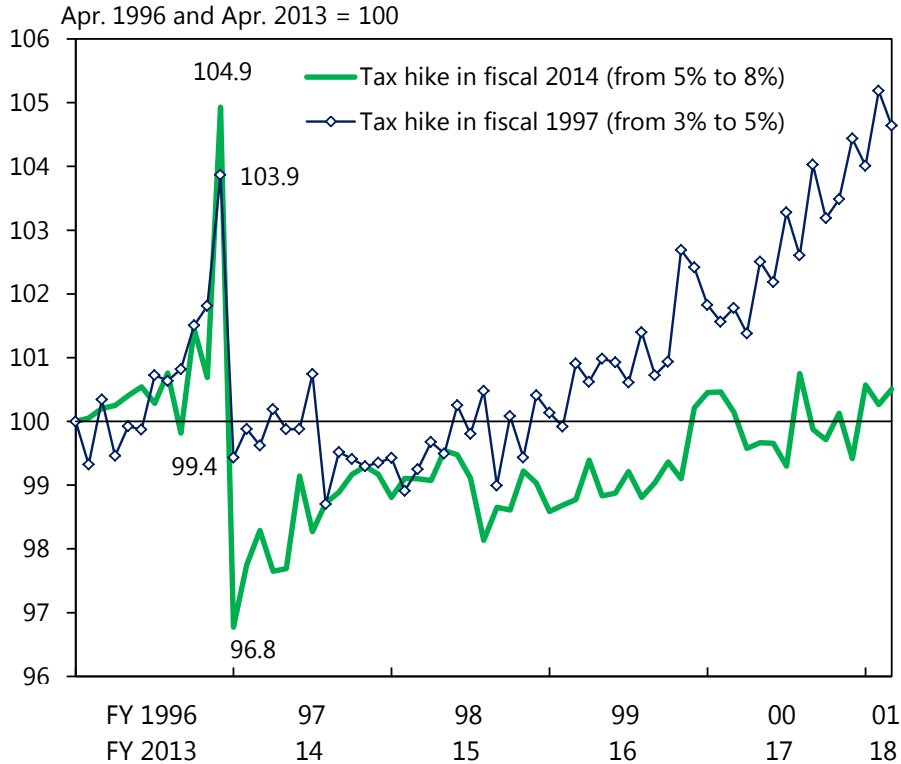
	Real GDP	CPI (all items less fresh food)
Fiscal 2018	+1.5	+1.1
Forecasts made in April 2018	+1.6	+1.3
Fiscal 2019	+0.8	+1.5
Forecasts made in April 2018	+0.8	+1.8
Fiscal 2020	+0.8	+1.6
Forecasts made in April 2018	+0.8	+1.8

Note: Figures for the CPI (all items less fresh food) exclude the direct effects of the consumption tax hike scheduled to take place in October 2019.

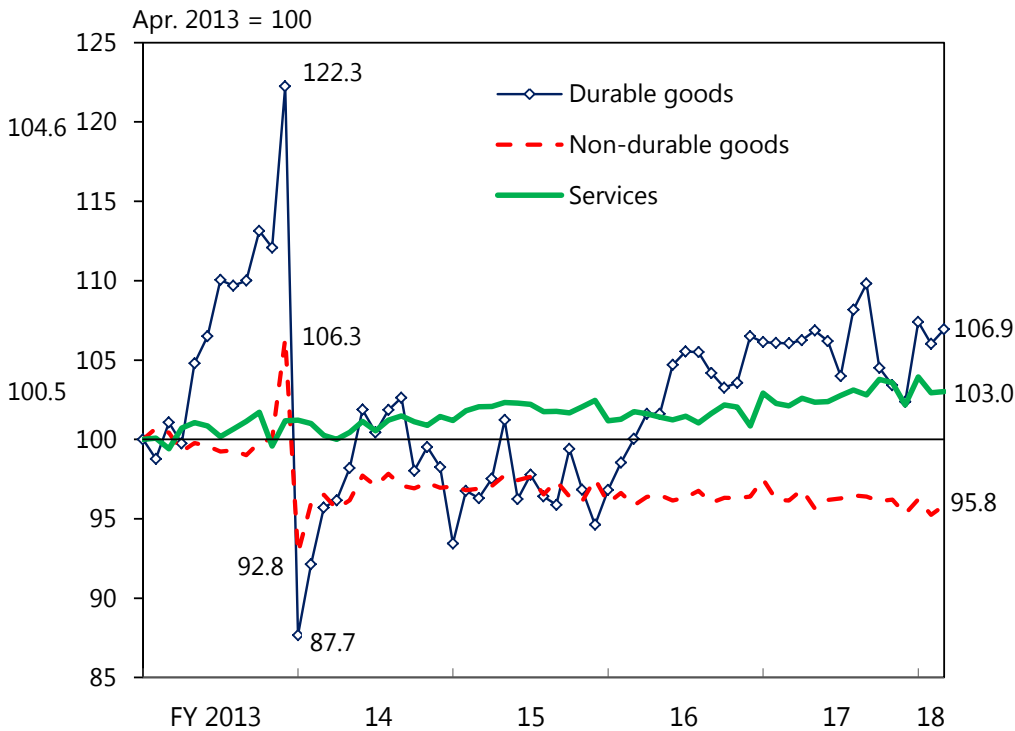
Source: Bank of Japan, "Outlook for Economic Activity and Prices," July 2018.

Household Consumption Before and After Consumption Tax Hikes

Consumption Before and After Tax Hikes



Real Private Consumption by Type



Note: The latest figures are as of June 2001 and June 2018.

Source: Cabinet Office, "Synthetic Consumption Index."

Notes: 1. The latest figures are as of June 2018.

2. "Durable goods" includes household appliances and automobiles.

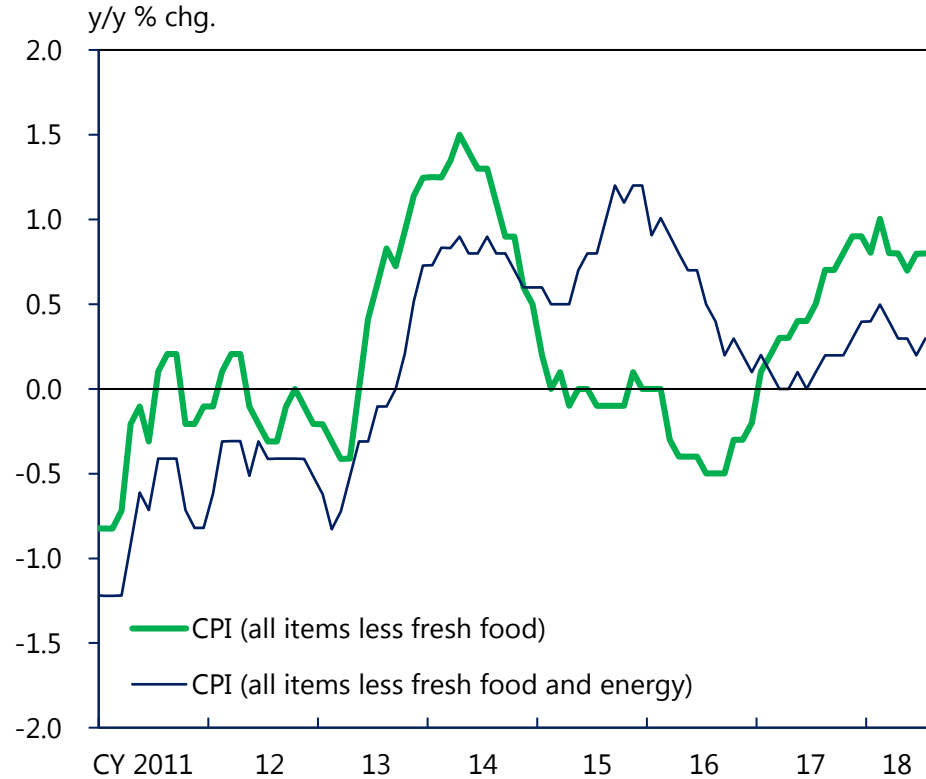
"Non-durable goods" includes food, beverages, and clothes.

3. The weights in the Consumption Activity Index are 9.4 percent for "Durable goods," 39.1 percent for "Non-durable goods," and 51.5 percent for "Services."

Source: Bank of Japan, "Consumption Activity Index."

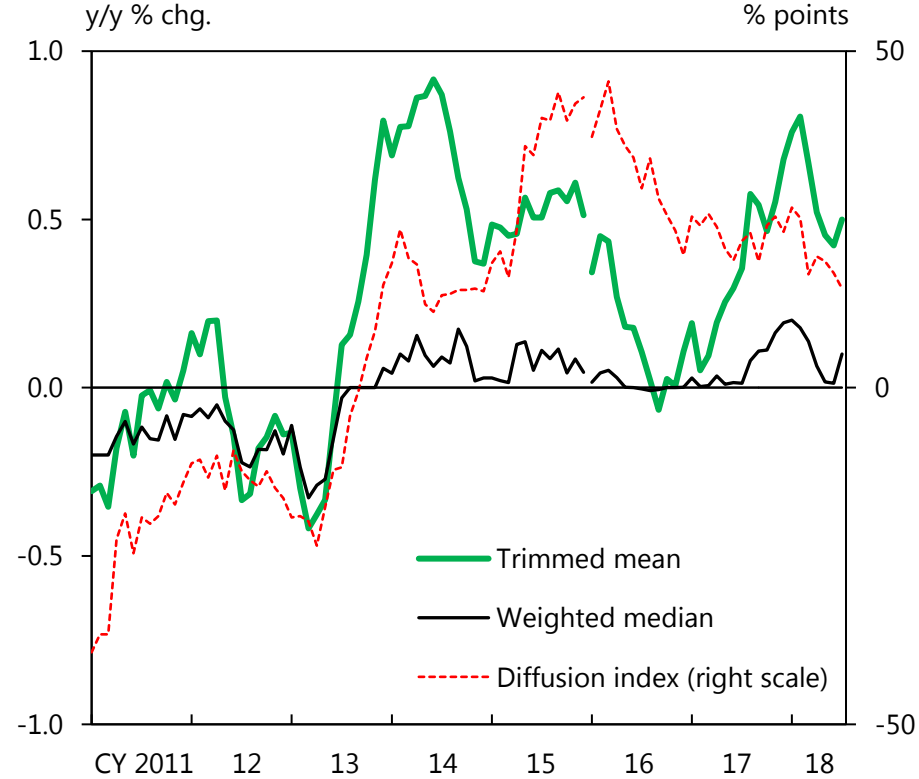
Consumer Prices

Consumer Price Index



Note: Figures are adjusted for changes in the consumption tax rate.
 Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."

Measures of Underlying Inflation

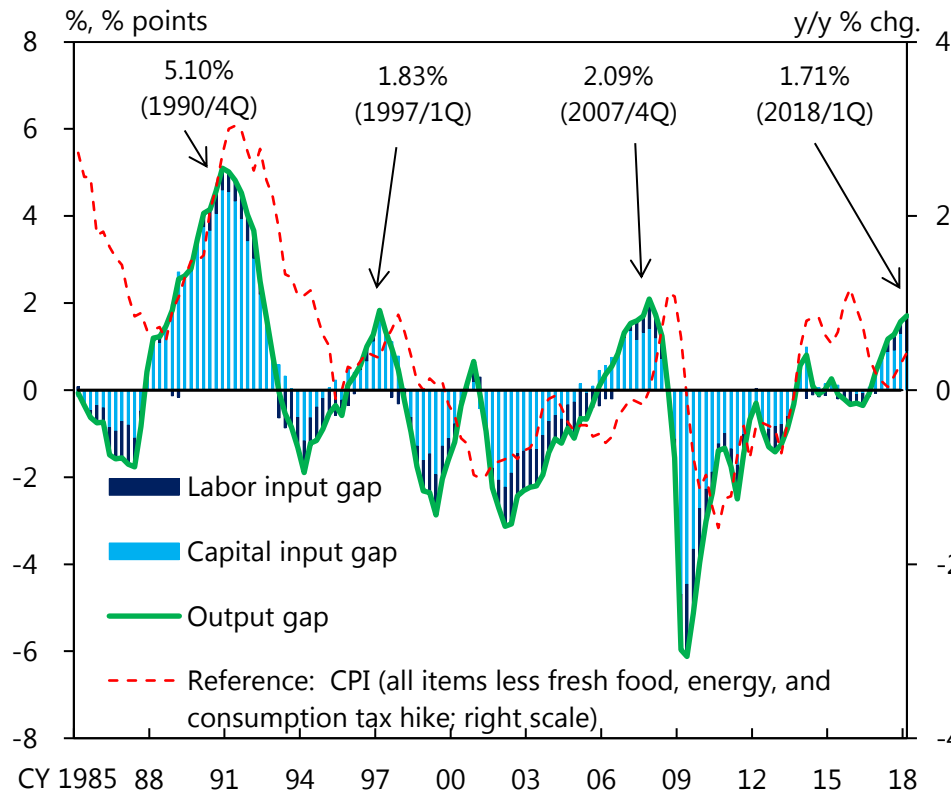


Note: The diffusion index is the share of increasing items minus that of decreasing items. The share of increasing/decreasing items is the share of items in the CPI (all items less fresh food) whose price indices increased/decreased from a year earlier.

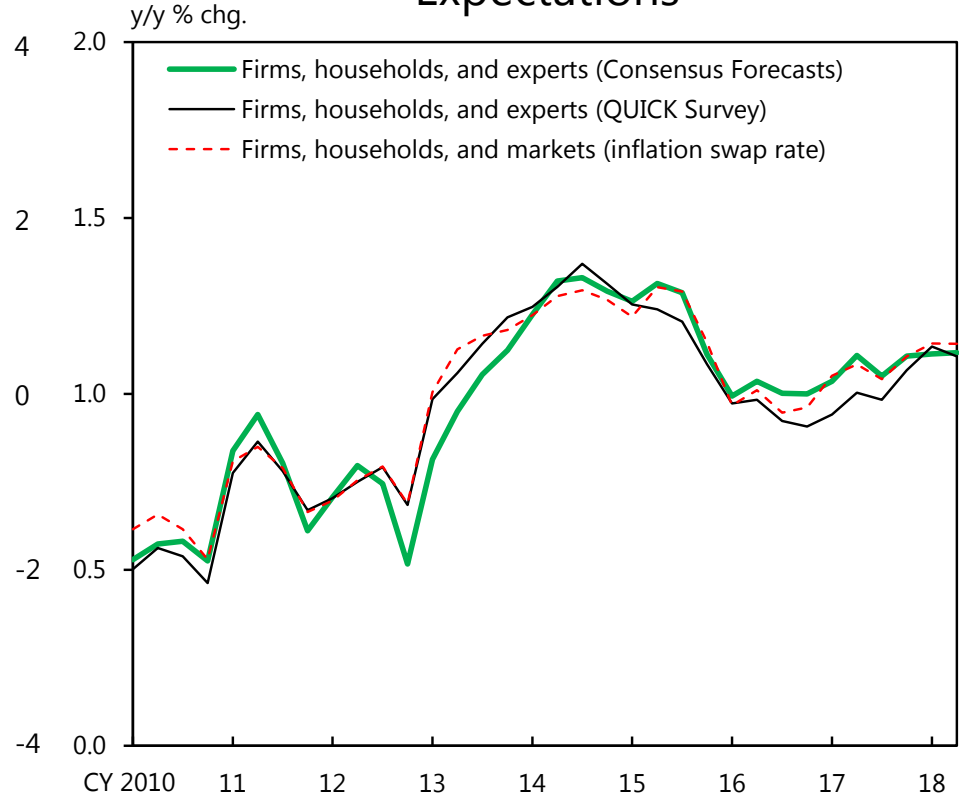
Source: Bank of Japan, "Measures of Underlying Inflation."

Output Gap and Inflation Expectations

Output Gap



Synthetic Indicators of Inflation Expectations



- Notes: 1. The data of the output gap in the left-hand graph are the estimates as of July 4, 2018.
2. In the right-hand graph, semiannual data from the Consensus Forecasts up through 2014/Q2 are linearly interpolated. Figures for the Bank's *Opinion Survey on General Public's Views and Behavior* exclude inflation expectations by respondents whose annual inflation expectations were $\pm 5\%$ or greater. The output prices DI in the *Tankan* represents the difference between the share of firms that raised prices in the preceding three months and the share of firms that lowered prices.
3. In the right-hand graph, inflation expectations of firms are taken from the *Tankan* and those of households are taken from the Bank's *Opinion Survey*. For experts' and markets' inflation expectations, data from the Consensus Forecasts, the QUICK Survey, and the inflation swap rate are used as indicated by their respective lines.

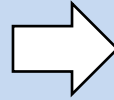
Sources: Ministry of Internal Affairs and Communications, "Consumer Price Index"; Consensus Economics Inc., "Consensus Forecasts"; QUICK, "QUICK Monthly Market Survey (Bonds)"; Bloomberg; Bank of Japan.

Strengthening the Framework for Continuous Powerful Monetary Easing

Chart 8

(1) Yield Curve Control

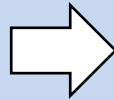
Short-term rate : minus 0.1%
Long-term rate : around 0%



Short-term rate : minus 0.1%
Long-term rate : around 0%. **The yields may move upward and downward to some extent depending mainly on developments in economic activity and prices.**

(2) Asset Purchases (Target Amount of Net Purchases)

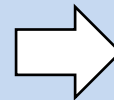
ETFs : 6 tril. yen per year
J-REITs : 90 bil. yen per year



ETFs : 6 tril. yen per year
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The Bank may increase or decrease the amount of purchases depending on market conditions.

(3) Commitment (Future Monetary Policy Commitment)

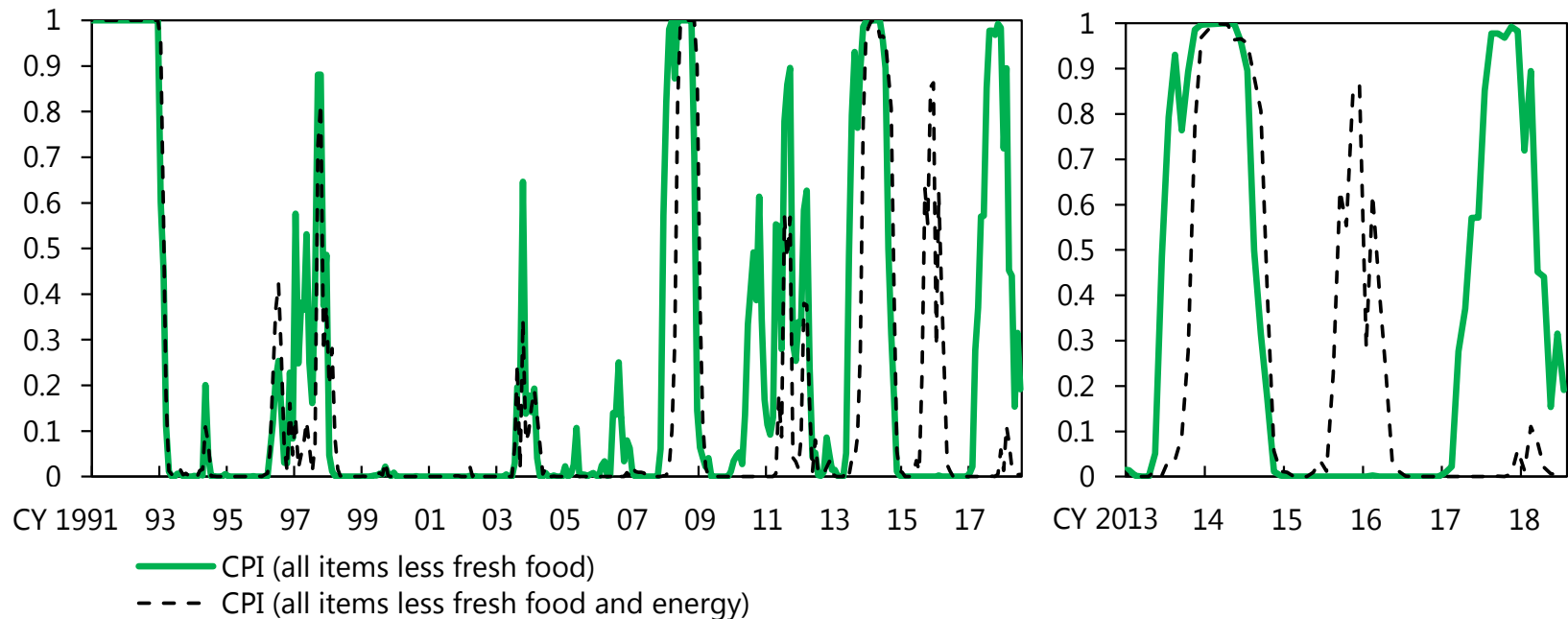
Inflation-overshooting commitment
"The Bank will continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds 2 percent and stays above the target in a stable manner."



Inflation-overshooting commitment
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."

Inflation Momentum

(Measured by 2 Percent-Passage Probability)



Note: Presuming that the first passage time probability of a stochastic process obeys the Wald distribution, the probability of inflation rates hitting a threshold before a time horizon is estimated, assuming a 2 percent threshold and measurement horizon of two years. The inflation momentum is assessed based on the assumption that the average of the changes in the monthly inflation rate over the past year will continue.

Source: Ministry of Internal Affairs and Communications, "Consumer Price Index."