

Outlook Report (October 2026)

<Baseline Scenario of the Outlook for Economic Activity and Prices>

Economic Activity

FY 2026

Continue growing moderately, albeit at a decelerated rate

(↓) rise in energy and raw material prices since early spring
(↑) AI-related demand, wage increase, government's measures, etc.

FY 2027 onward

Economic growth rate is likely to rise moderately

(↑) waning adverse effects of high energy and raw material prices
(↑) intensified virtuous cycle from income to spending

Prices (less fresh food)

In the first half of the projection period

Accelerate to a level clearly above 2 percent

(↑) rise in crude oil prices, rise in the prices of semiconductors and other items, depreciation of the yen

In the second half of the projection period

Decline toward around 2 percent

(↓) waning effects of high crude oil prices

Underlying CPI inflation is at a level that is generally consistent with the price stability target of 2 percent, and is expected to remain at around that level*

- With a sense of labor shortage continuing to be strong, the mechanism in which wages and prices rise moderately in interaction with each other has been operating
- Medium- to long-term inflation expectations are at around 2 percent *For developments in indicators related to underlying inflation, see the next page

<Policy Board Members' Forecasts>

y/y % chg., medians of forecasts

	FY 2026	2027	2028
Real GDP	0.7 (+0.1)	0.7 (-0.1)	0.8 (-)
CPI (less fresh food)	2.5 (-)	2.6 (+0.2)	2.0 (-)
CPI (less fresh food and energy)	2.4 (-0.1)	2.7 (+0.1)	2.3 (+0.1)

Note: Figures in parentheses indicate changes from the July 2026 Outlook Report.
Figures do not take into account the impact stemming from the proposed reduction in the consumption tax on food and beverages.

<Risks to Economic Activity and Prices>

Risks

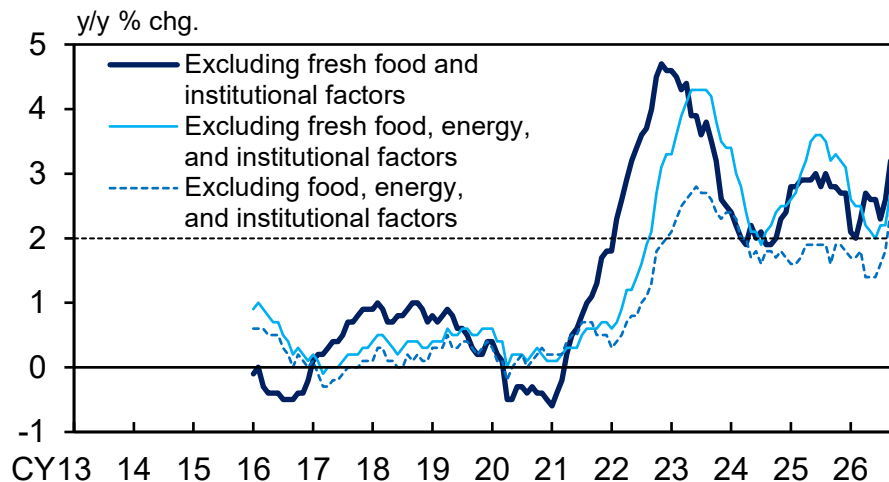
The situation in the Middle East, developments in AI-related demand, developments in foreign exchange rates, etc.

Risk Balance

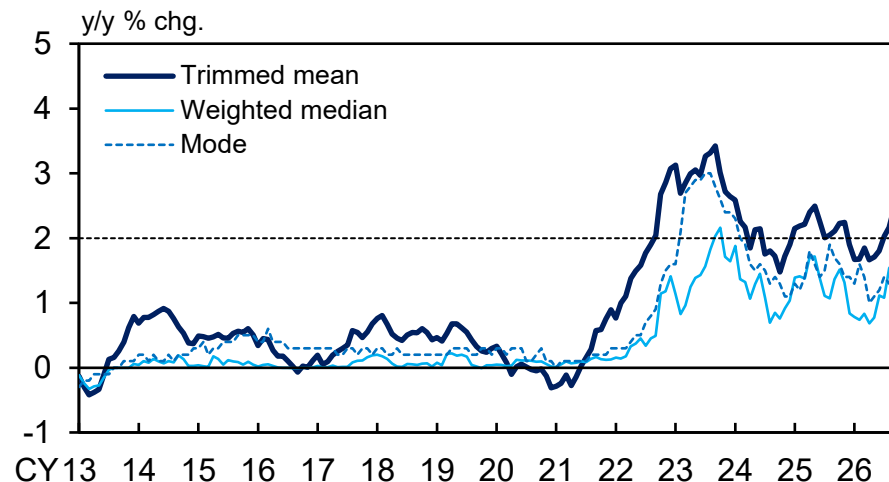
- ✓ Economic activity: generally balanced
- ✓ Prices: skewed to the upside
- ✓ **There is a risk that** medium- to long-term inflation expectations will rise and **underlying CPI inflation will deviate upward to a level above the price stability target of 2 percent**, given that firms' behavior has been shifting more toward raising wages and prices and there are various factors that could drive up prices.

Indicators Related to Underlying Inflation

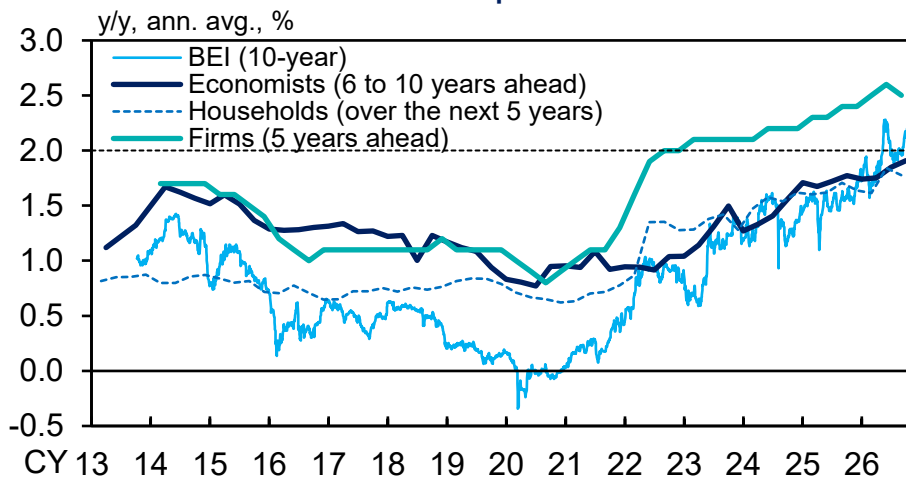
CPI (Excluding Institutional Factors)



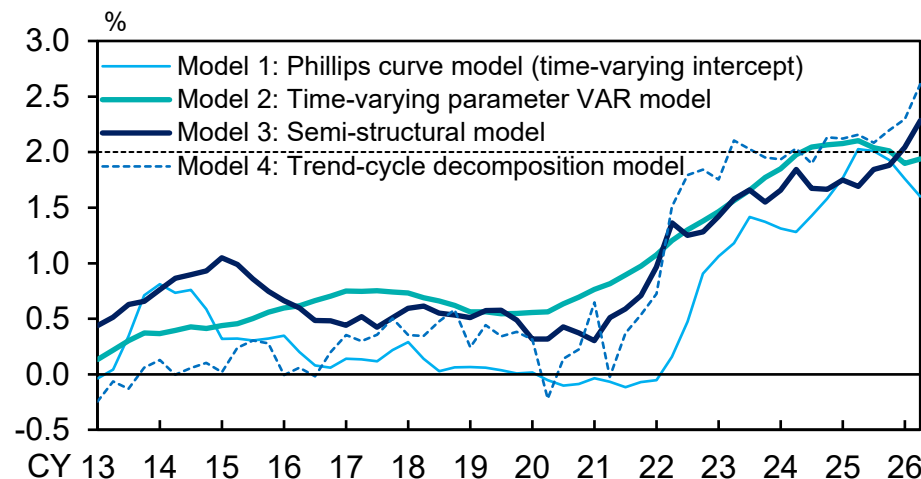
CPI: Trimmed Mean, etc.



Inflation Expectations



Trend Inflation



Sources: Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare; Cabinet Office; Bank of Japan; QUICK, "QUICK Monthly Market Survey <Bonds>"; Consensus Economics Inc., "Consensus Forecasts"; Bloomberg; Google Trends, etc.

Notes: 1. Figures in the upper-left chart, the upper-right chart, and the lower-right chart are staff estimates. For details, see the following paper: Monetary Affairs Department, Bank of Japan, "The Concept and Measurement of Underlying Inflation," *Bank of Japan Review Series*, March 2026.

2. In the lower-left chart, figures for economists show the forecasts of economists in the *Consensus Forecasts*. Figures for households are from the *Opinion Survey on the General Public's Views and Behavior*, estimated using the modified Carlson-Parkin method, which takes into account time variation in the distribution of responses to a five-choice qualitative question. Figures for firms show the inflation outlook of enterprises for general prices in the *Tankan* (all industries and enterprises, average).