



Economic Activity, Prices, and Monetary Policy in Japan

Speech at a Meeting with Local Leaders in Yamaguchi

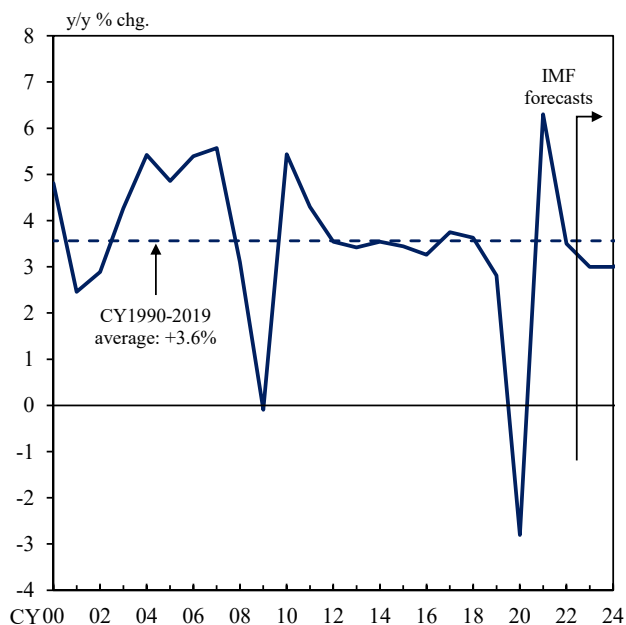
September 6, 2023

TAKATA Hajime
Member of the Policy Board
Bank of Japan

Chart 1

Developments in Overseas Economies (IMF's July 2023 WEO Update)

Global Growth Rate

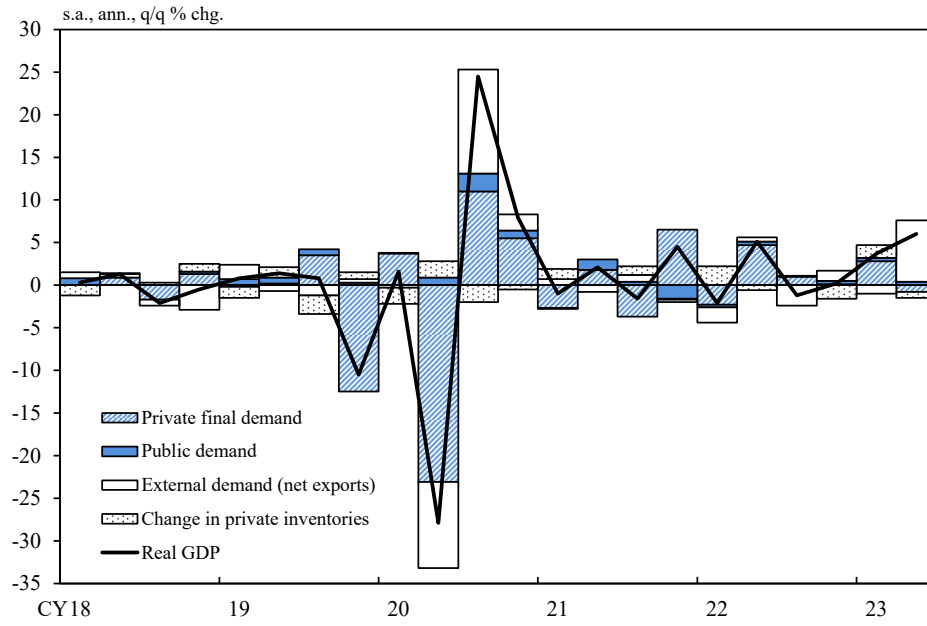


Major Economies' Growth Rates

	y/y % chg., % points		
	CY 2022	CY 2023 [Forecast]	CY 2024 [Forecast]
World	3.5	3.0 (0.2)	3.0 (0.0)
Advanced economies	2.7	1.5 (0.2)	1.4 (0.0)
United States	2.1	1.8 (0.2)	1.0 (-0.1)
Euro area	3.5	0.9 (0.1)	1.5 (0.1)
United Kingdom	4.1	0.4 (0.7)	1.0 (0.0)
Japan	1.0	1.4 (0.1)	1.0 (0.0)
Emerging market and developing economies	4.0	4.0 (0.1)	4.1 (-0.1)
China	3.0	5.2 (0.0)	4.5 (0.0)
India	7.2	6.1 (0.2)	6.3 (0.0)
ASEAN-5	5.5	4.6 (0.1)	4.5 (-0.1)

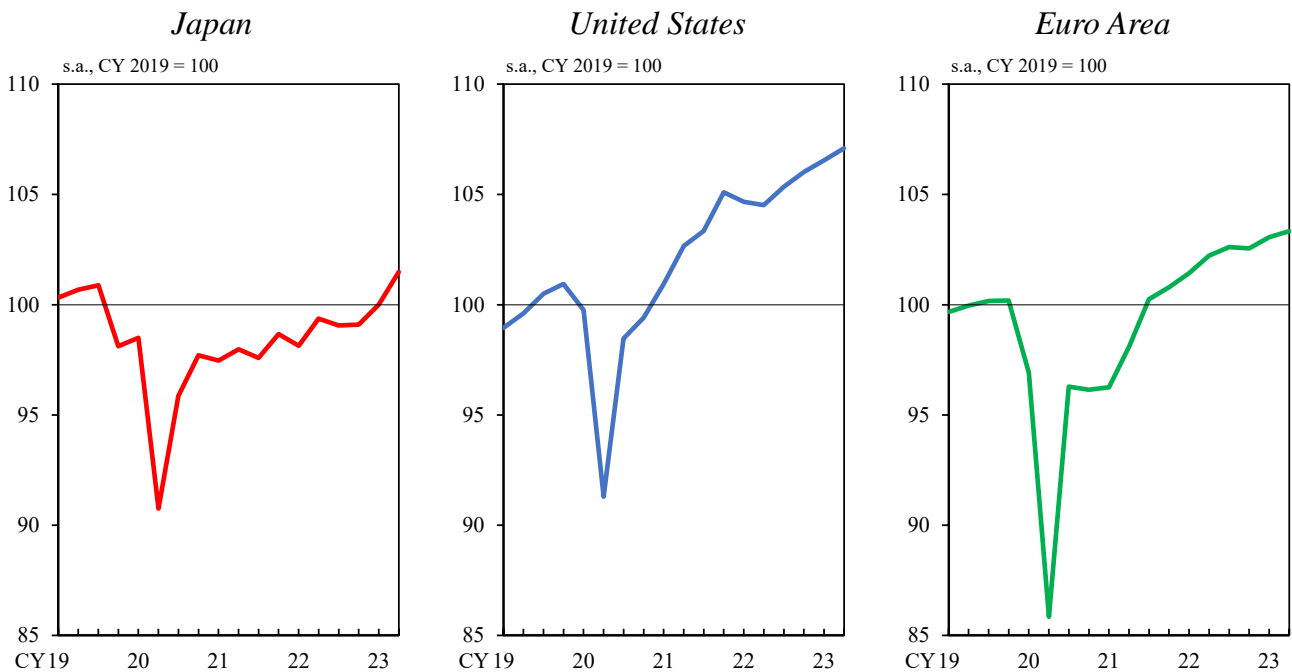
Note: In the table, figures in brackets are the differences from the forecasts in the April 2023 *World Economic Outlook* (WEO).
ASEAN-5 comprises Indonesia, Malaysia, the Philippines, Singapore, and Thailand.
Source: IMF.

Real GDP Growth Rate



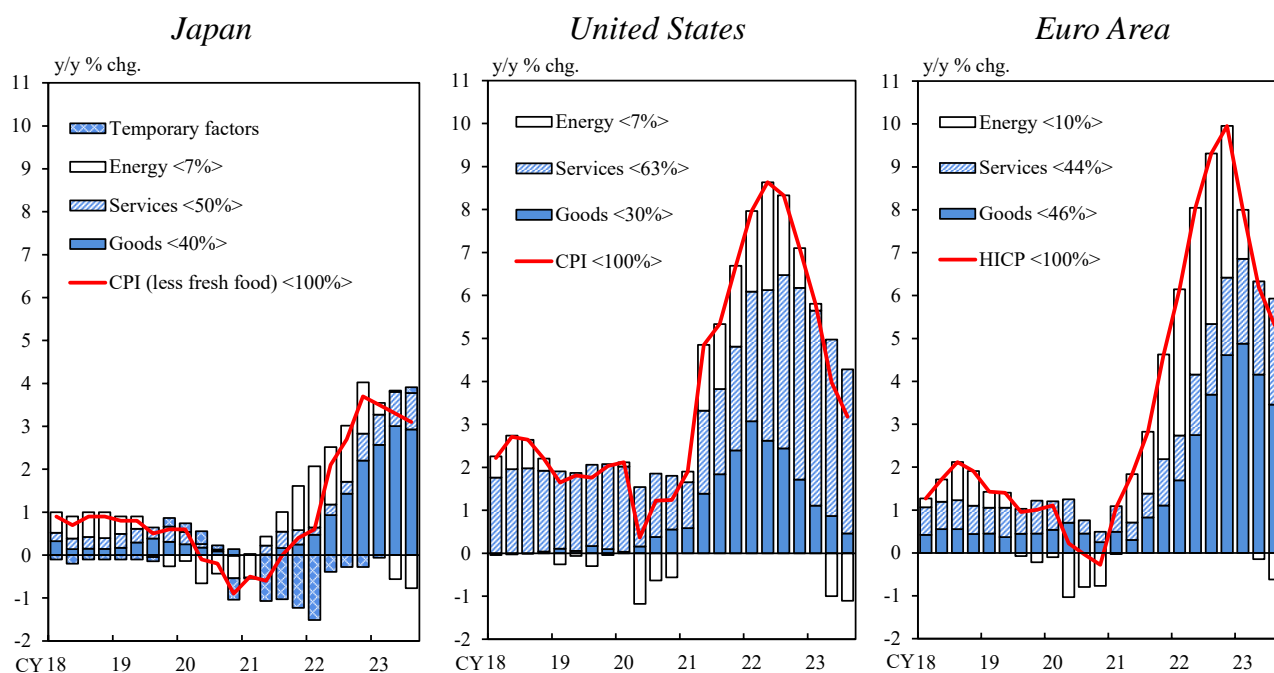
Note: Private final demand = Private demand - Change in private inventories
 Source: Cabinet Office.

Real GDP



Sources: Cabinet Office; Eurostat; U.S. Bureau of Economic Analysis.

Consumer Prices



Notes: 1. Figures for temporary factors for Japan are Bank staff estimates and consist of the effects of the reduction in mobile phone charges, the consumption tax hike, free education policies, and travel subsidy programs.

2. Figures in angular brackets show the share of each component. Figures for 2023/Q3 are those for July.

Sources: Haver; Ministry of Internal Affairs and Communications.

Forecasts of the Majority of the Policy Board Members (July 2023 Outlook Report)

y/y % chg.

	Real GDP	CPI (all items less fresh food)	(Reference) CPI (all items less fresh food and energy)
Fiscal 2023	+1.2 to +1.5 [+1.3]	+2.4 to +2.7 [+2.5]	+3.1 to +3.3 [+3.2]
Forecasts made in April 2023	+1.1 to +1.5 [+1.4]	+1.7 to +2.0 [+1.8]	+2.5 to +2.7 [+2.5]
Fiscal 2024	+1.0 to +1.3 [+1.2]	+1.8 to +2.2 [+1.9]	+1.5 to +2.0 [+1.7]
Forecasts made in April 2023	+1.0 to +1.3 [+1.2]	+1.8 to +2.1 [+2.0]	+1.5 to +1.8 [+1.7]
Fiscal 2025	+1.0 to +1.2 [+1.0]	+1.6 to +2.0 [+1.6]	+1.8 to +2.2 [+1.8]
Forecasts made in April 2023	+1.0 to +1.1 [+1.0]	+1.6 to +1.9 [+1.6]	+1.8 to +2.0 [+1.8]

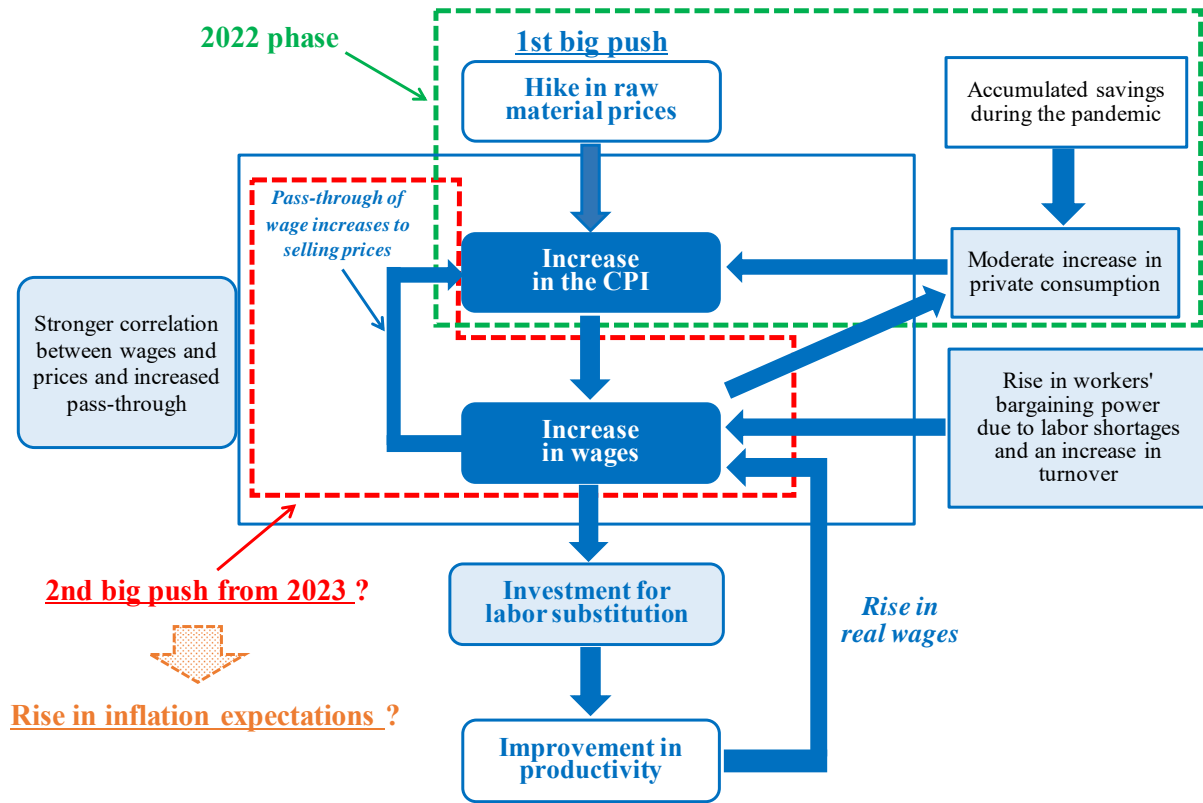
Notes: 1. Figures in brackets indicate the medians of the Policy Board members' forecasts (point estimates).

2. The forecasts of the majority of the Policy Board members are constructed as follows: each Policy Board member's forecast takes the form of a point estimate -- namely, the figure to which they attach the highest probability of realization. These forecasts are then shown as a range, with the highest figure and the lowest figure excluded. The range does not indicate the forecast errors.

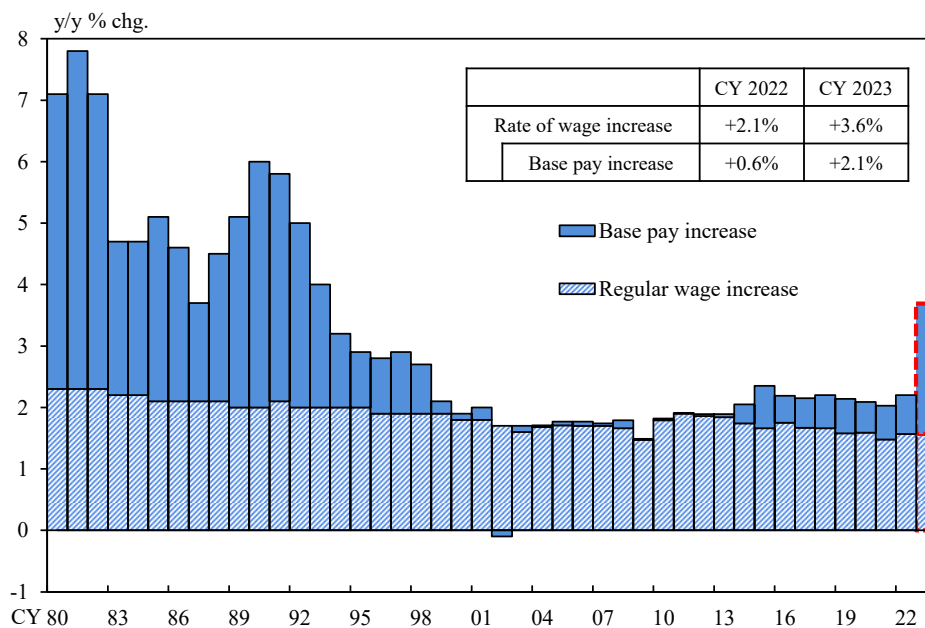
3. Each Policy Board member makes their forecasts taking into account the effects of past policy decisions and with reference to views incorporated in financial markets regarding the future conduct of policy.

Source: Bank of Japan.

Correlation between Wages and Prices

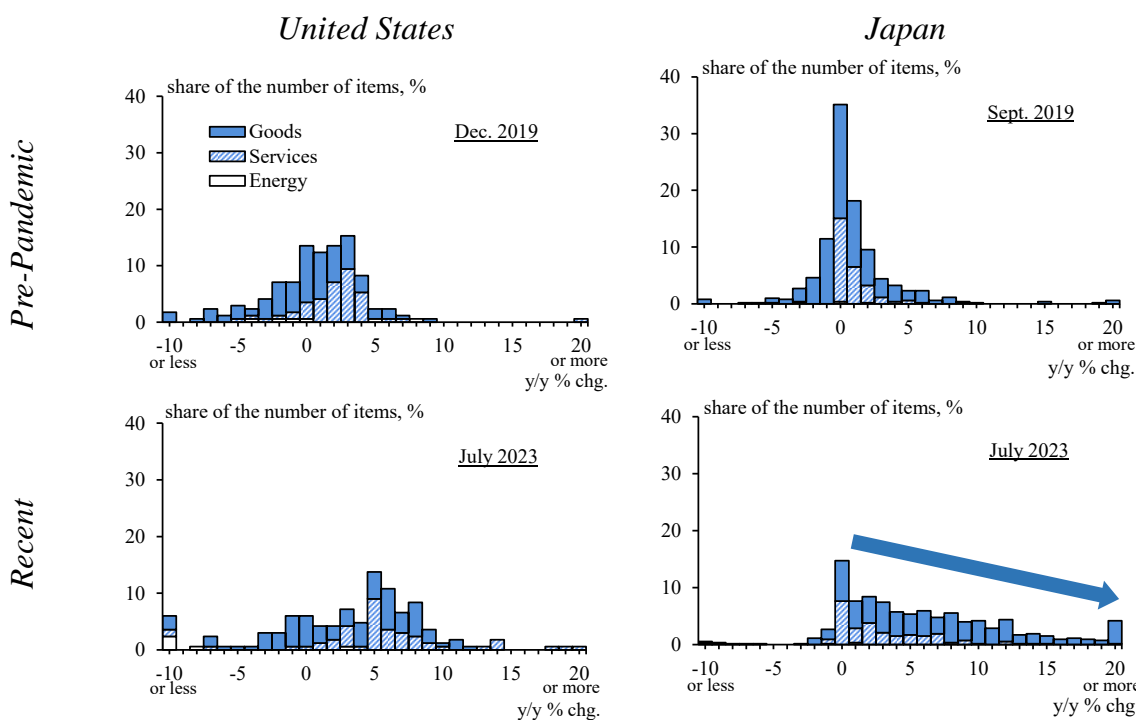


Wage Growth Rate



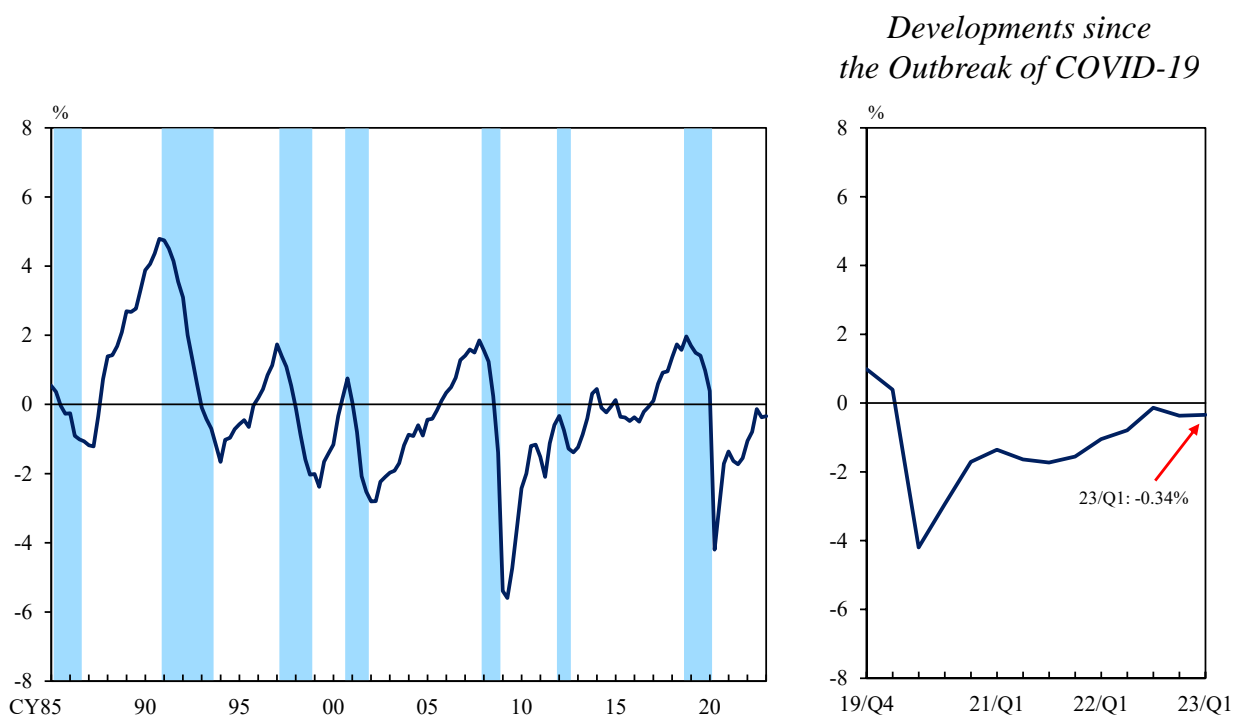
Note: Figures from 1980 to 2014 are those published by the Central Labour Relations Commission, while those from 2015 to 2023 are figures released by Rengo.
Sources: Central Labour Relations Commission; Japanese Trade Union Confederation (Rengo).

Prices Change Distributions



Note: Figures for the United States are for the CPI for all items, while those for Japan are for the CPI for all items excluding fresh food. The pre-pandemic distribution for Japan is based on data for September 2019, which was before the CPI developments were affected by the consumption tax hike.
 Sources: Ministry of Internal Affairs and Communications; U.S. Bureau of Labor Statistics.

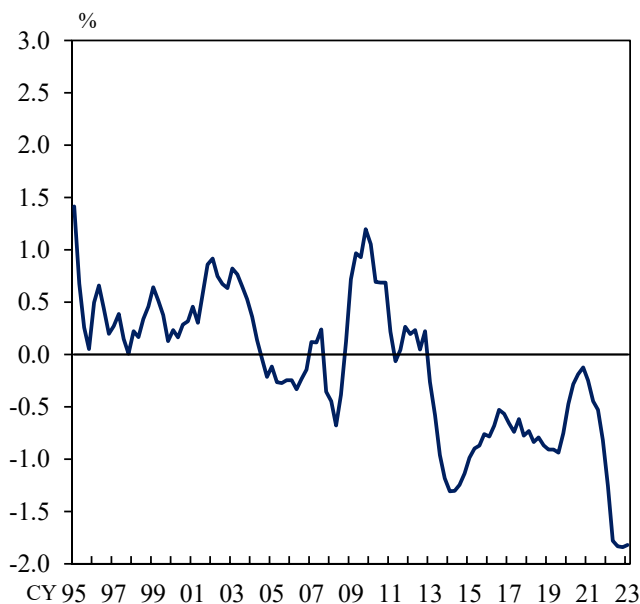
Output Gap



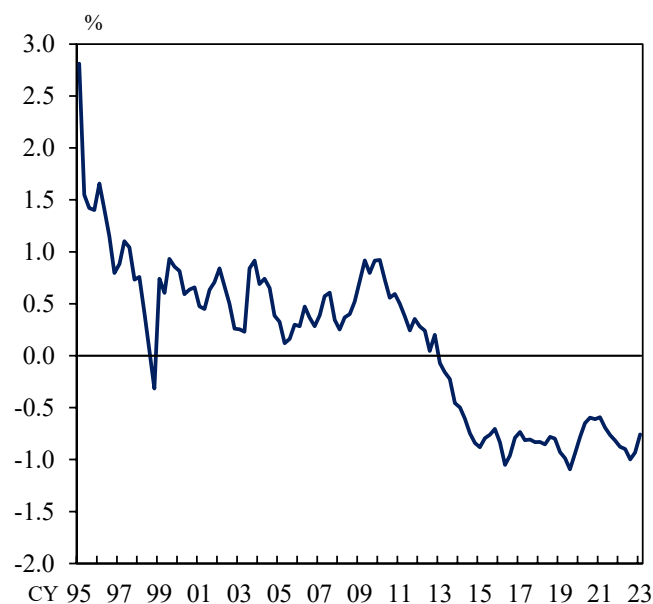
Notes: 1. Figures are Bank staff estimates.
 2. Shaded areas denote recession periods.
 Source: Bank of Japan.

Real Interest Rates

Short-term
(1-year real JGB yield)



Long-term
(10-year real JGB yield)

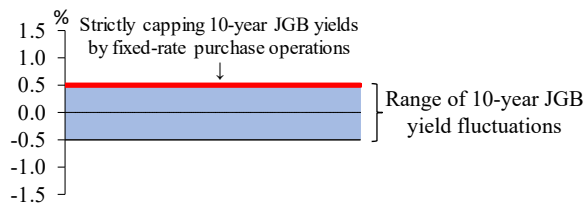


Notes: 1. Real interest rate = Nominal JGB yield – Survey-based inflation expectation
 2. Survey-based inflation expectation is the average of the "QUICK Survey," the "Consensus Forecasts," and the inflation swap rate.
 Sources: Bloomberg; Consensus Economics Inc., "Consensus Forecasts"; QUICK, "QUICK Monthly Market Survey <Bonds>."

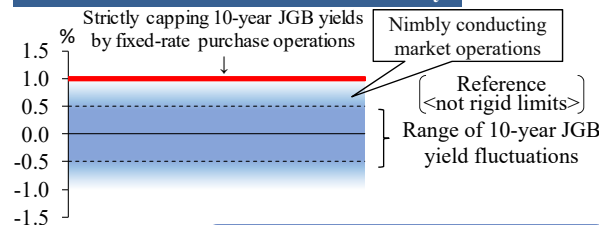
Conducting Yield Curve Control (YCC) with Greater Flexibility

- 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

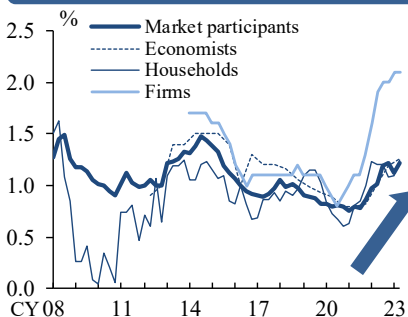


Outlook for Prices

	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

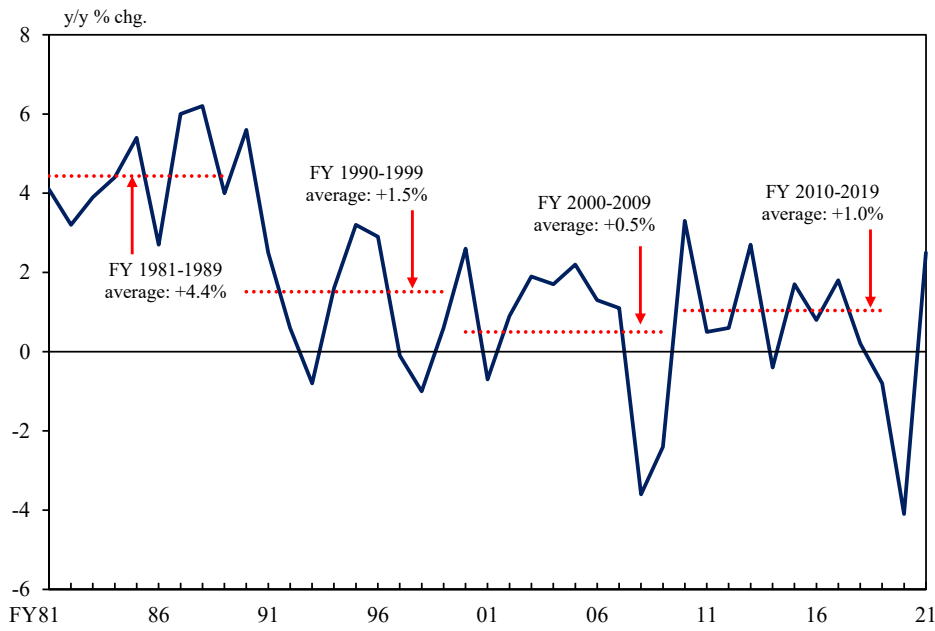


Note: Figures for market participants, economists, households, and firms are from "QUICK Monthly Market Survey," "ESP Forecast," "Opinion Survey on the General Public's Views and Behavior," and "Tankan," respectively.

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

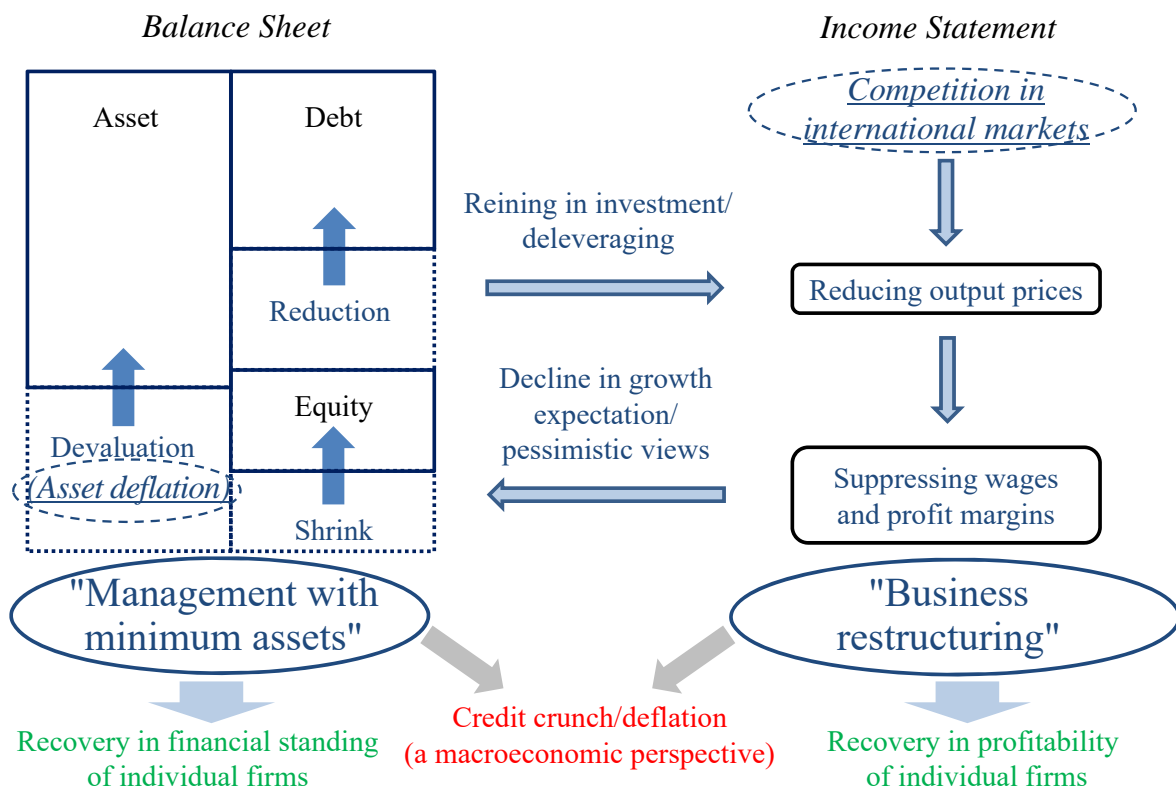
- If upside risks to Japan's economic activity and prices materialize
 - Decline in real interest rates
 - Mitigating the effects on the functioning of bond markets, etc.
- If downside risks to Japan's economic activity and prices materialize
 - Decline in long-term interest rates

Long-Term Developments in Real GDP Growth Rate

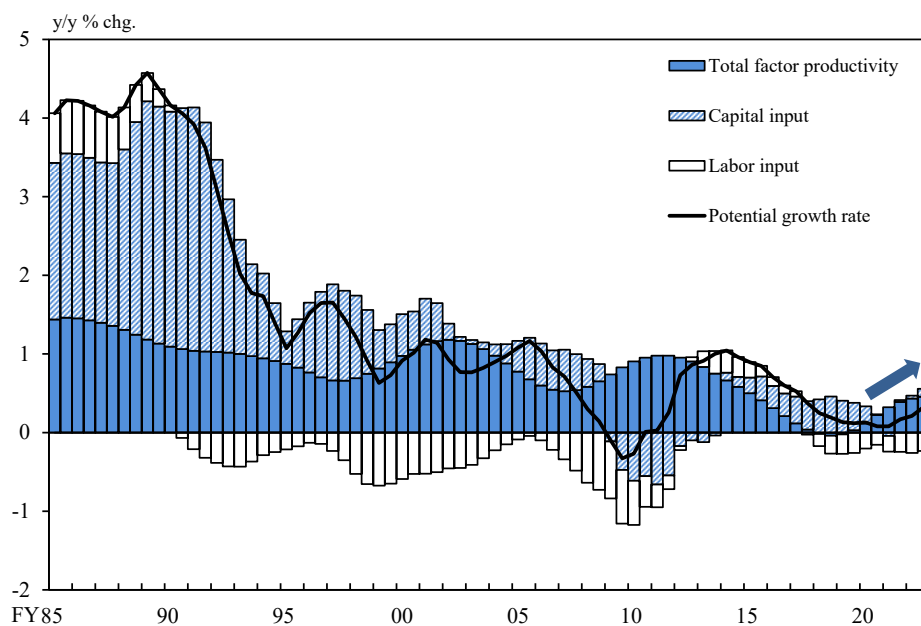


Note: Figures from fiscal 1981 to 1994 are based on simplified retroactive adjustments.
Source: Cabinet Office.

My View on Firm's Behavior in the Post-Bubble Era

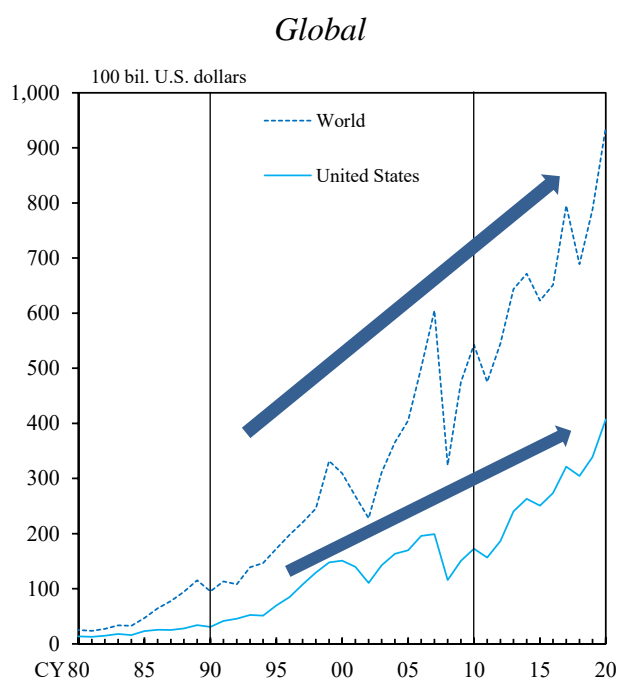
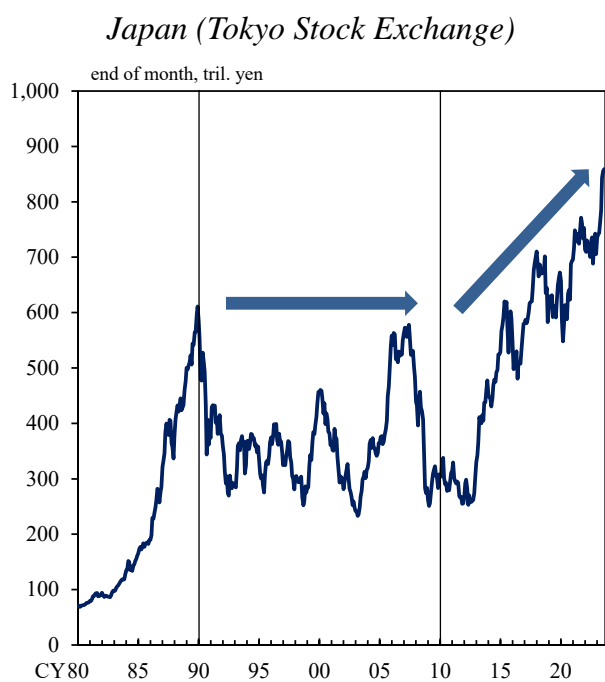


Potential Growth Rate



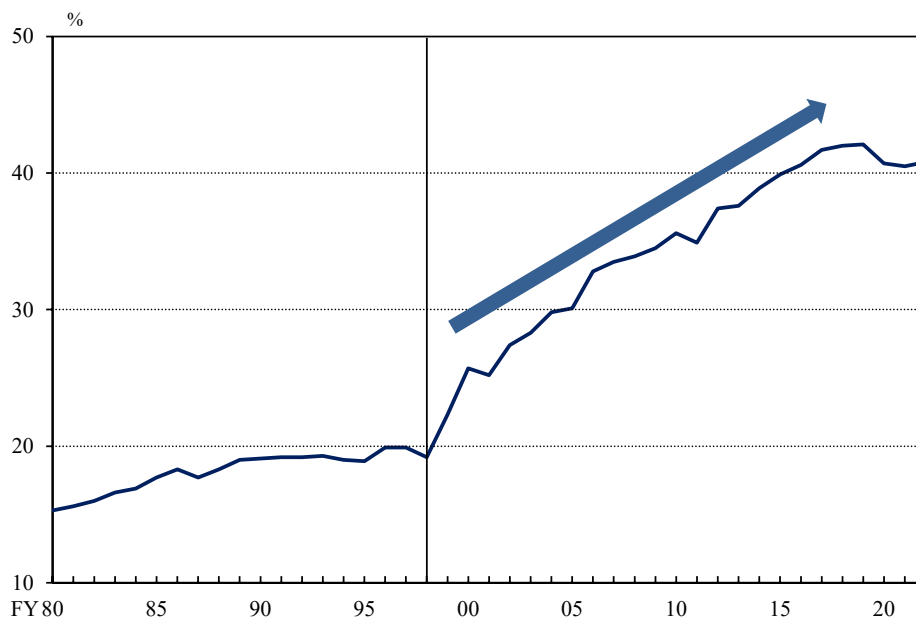
Note: Figures are Bank staff estimates.
Source: Bank of Japan.

Stock Market Capitalization



Note: In the right panel, figures are the market capitalization of listed domestic companies (current US\$) from the World Development Indicators.
Sources: Japan Exchange Group; World Bank.

Capital Adequacy Ratio of Firms



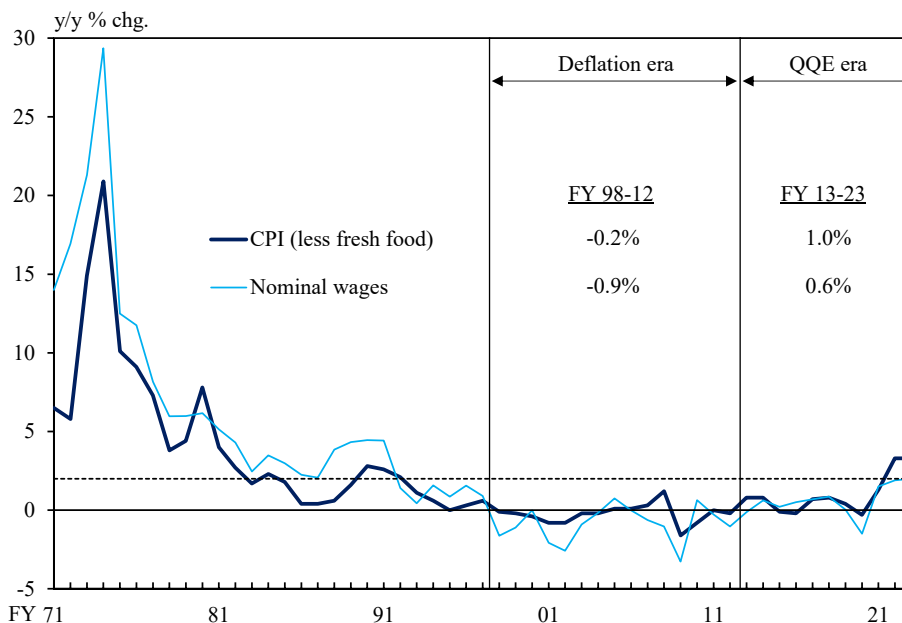
Note: Based on the *Financial Statements Statistics of Corporations by Industry, Annually*. Excluding "finance and insurance."
 Source: Ministry of Finance.

U.S. Dollar/Yen



Source: Bank of Japan.

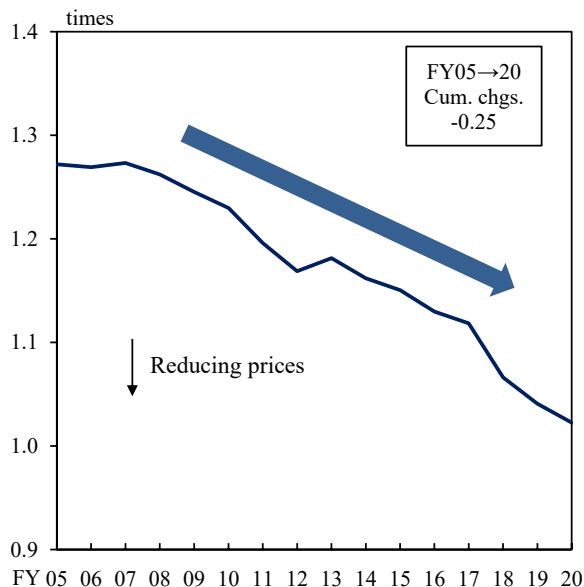
Prices and Wages



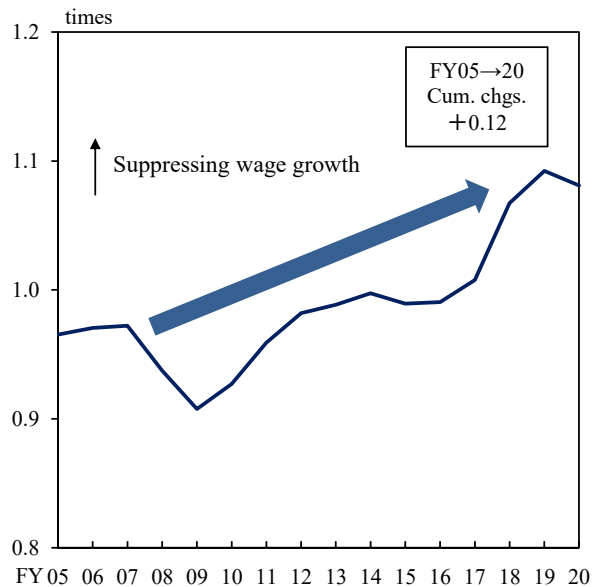
Notes: 1. The CPI figures are staff estimates and exclude temporary factors, which consist of the effects of the reduction in mobile phone charges, consumption tax hikes, free education policies, and travel subsidy programs. The figure for FY2023 is the April-July average.
 2. Figures for nominal wages are for establishments with 30 or more employees up through fiscal 1990, and with 5 or more employees from fiscal 1991 onward. The figure for FY2023 is the April-June average.
 Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

Price Markups and Wage Markdowns

Price Markups



Wage Markdowns

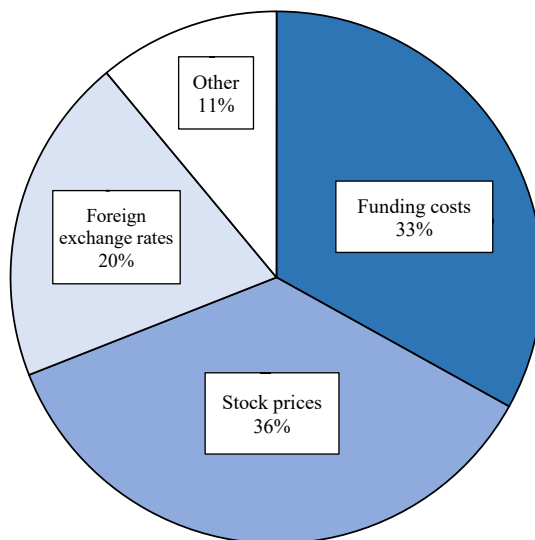
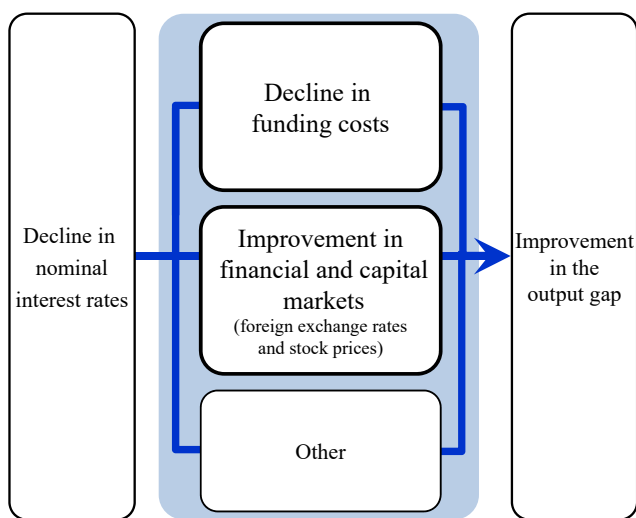


Note: Based on all firm sizes and all industries. See Aoki, K., Hogen, Y., and Takatomi, K., "Price Markups and Wage Setting Behavior of Japanese Firms," Bank of Japan Working Paper Series, no. 23-E-5.
 Sources: Cabinet Office; CRD Association; Development Bank of Japan; Ministry of Economy, Trade and Industry; Ministry of Health, Labour and Welfare.

Transmission Channels of Lower Interest Rates

Overview

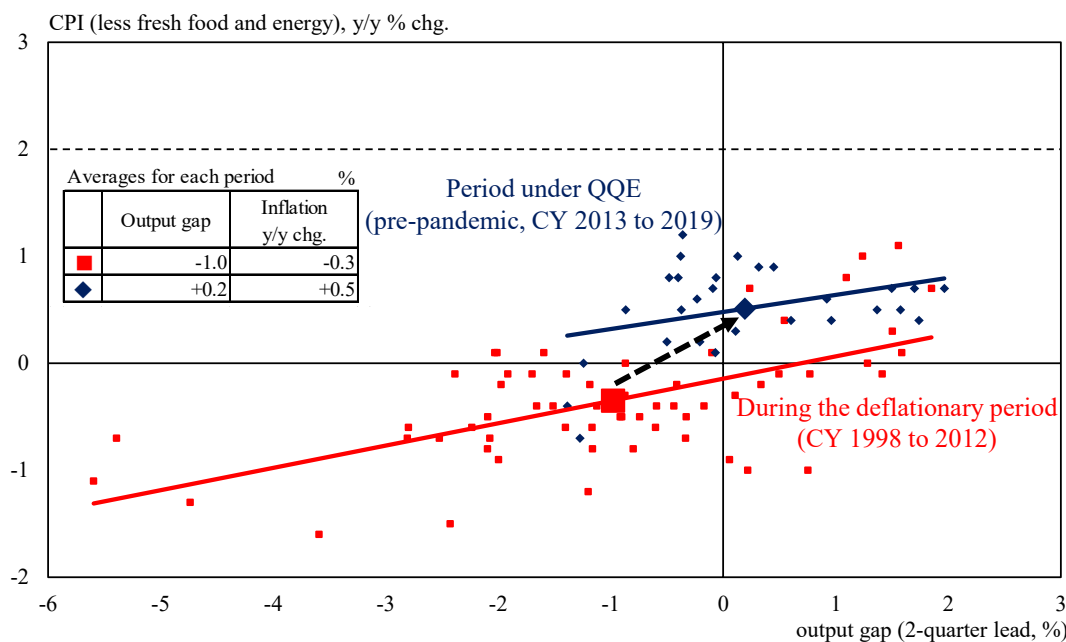
Improvement in the Output Gap
(Breakdown by Channel)



Notes: 1. Based on a VAR model with coefficient restrictions using eight variables: output gap, interest rates (3-month), interest rate spreads (2-year minus 3-month, 5-year minus 2-year, 10-year minus 5-year), aggregate funding costs, nominal effective exchange rates of the yen, and stock prices.
 2. Aggregate funding costs are the weighted average of bank lending rates and issuance yields for CP and corporate bonds.
 3. In the right chart, figures show the 5-year cumulative effects.
 Sources: Bloomberg; Bank of Japan, etc.

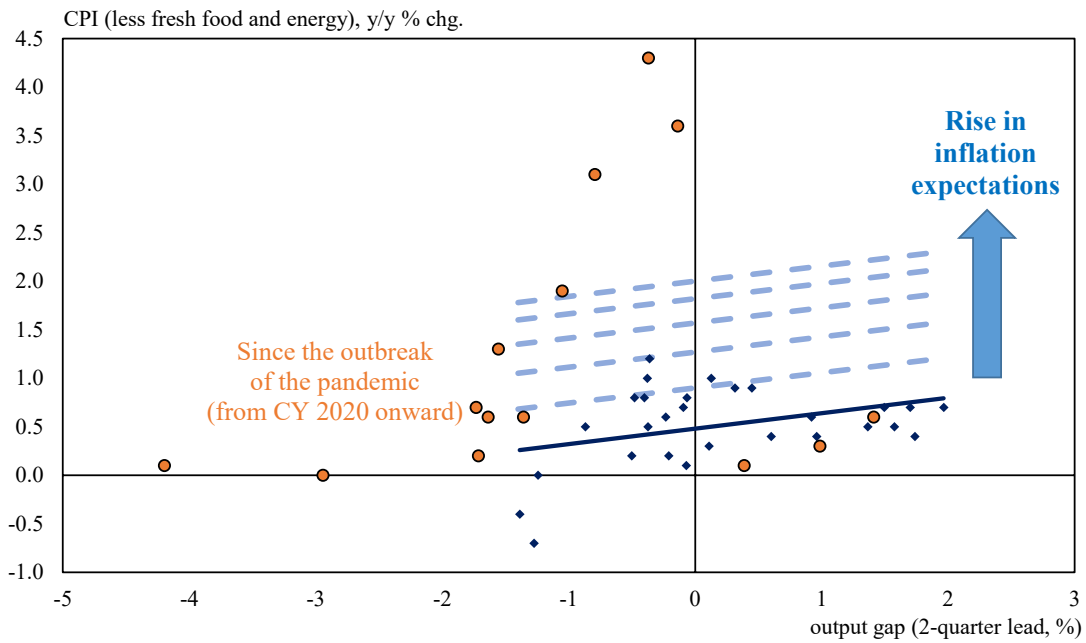
Chart 21

Phillips Curve before and after the Introduction of QQE



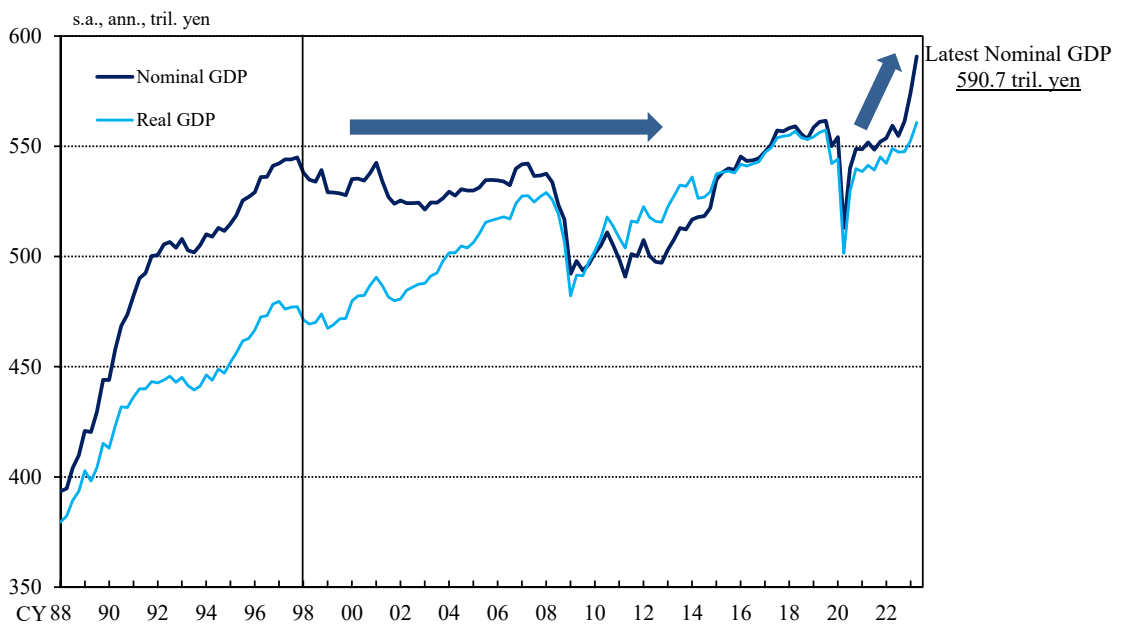
Note: The CPI figures exclude fresh food and energy, for which prices are volatile. They also exclude temporary factors, which consist of the effects of the reduction in mobile phone charges, consumption tax hikes, free education policies, and travel subsidy programs. These Phillips curves are based on statistical estimates and should be interpreted with some latitude.
 Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

Phillips Curve before and after the Pandemic



Note: Figures for the CPI (less fresh food and energy) exclude temporary factors (see note in Chart 21).
Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

Nominal and Real GDP



Note: Figures before 1995 are based on simplified retroactive adjustments.
Source: Cabinet Office.