

Challenges to Achieving the Price Stability Target of 2 Percent

*Speech at a Meeting Held by the Naigai Josei Chosa Kai
(Research Institute of Japan) in Tokyo*

November 6, 2015

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Governor of the Bank of Japan

Chart 1

Outlook for Economic Activity and Prices (as of October 2015)

y/y % chg.

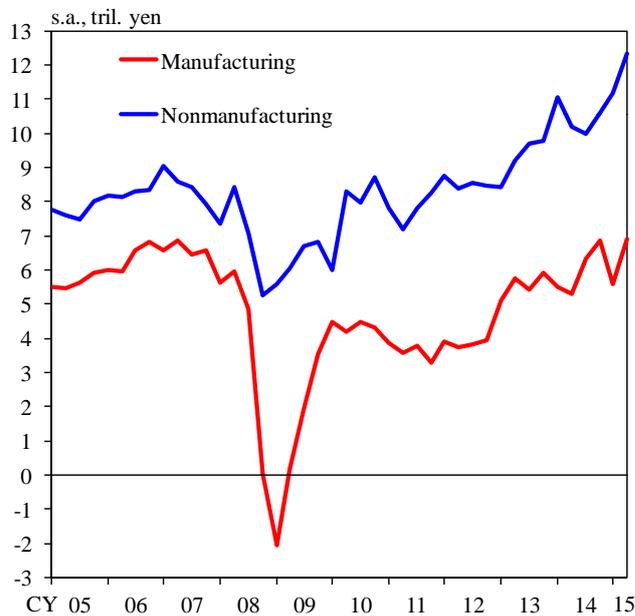
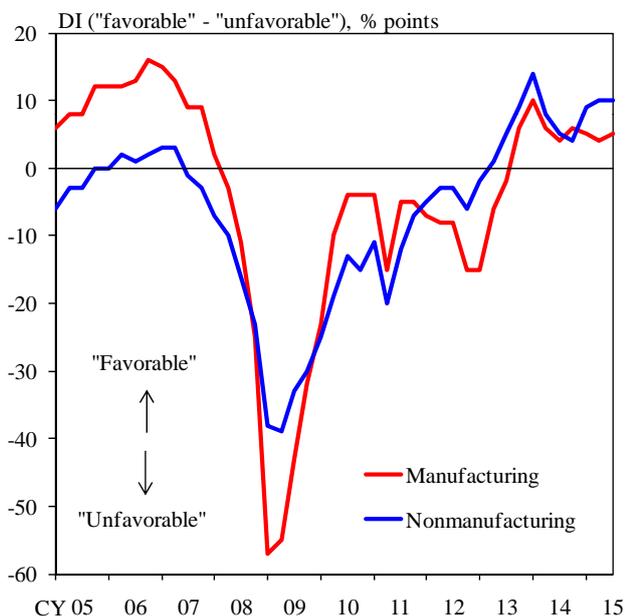
	Real GDP	CPI (all items less fresh food)	Excluding the effects of the consumption tax hikes
Fiscal 2015	+1.2	+0.1	
Forecasts made in July 2015	+1.7	+0.7	
Fiscal 2016	+1.4	+1.4	
Forecasts made in July 2015	+1.5	+1.9	
Fiscal 2017	+0.3	+3.1	+1.8
Forecasts made in July 2015	+0.2	+3.1	+1.8

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

Business Sentiment and Corporate Profits

Tanken: Business Conditions DI

Current Profits

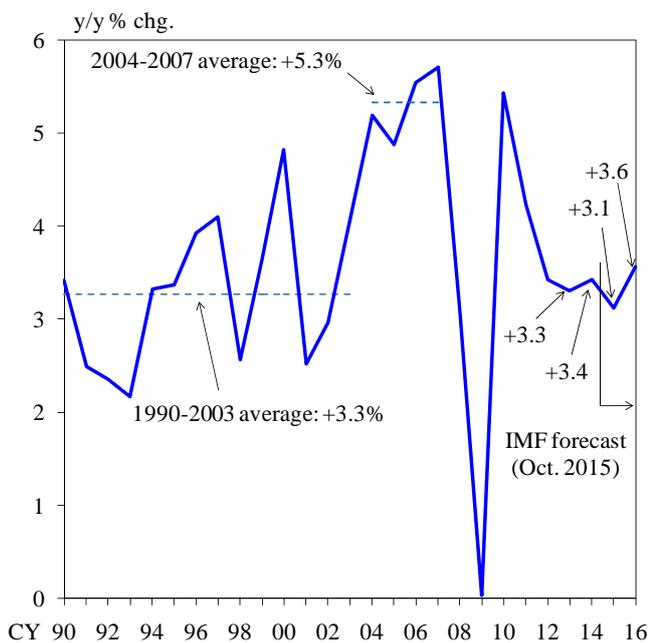


Note: Figures for current profits exclude those for the finance and insurance industry.
Sources: Bank of Japan; Ministry of Finance.

World Economic Outlook Released by the IMF

Real GDP Growth Rate

Projections for Major Economies

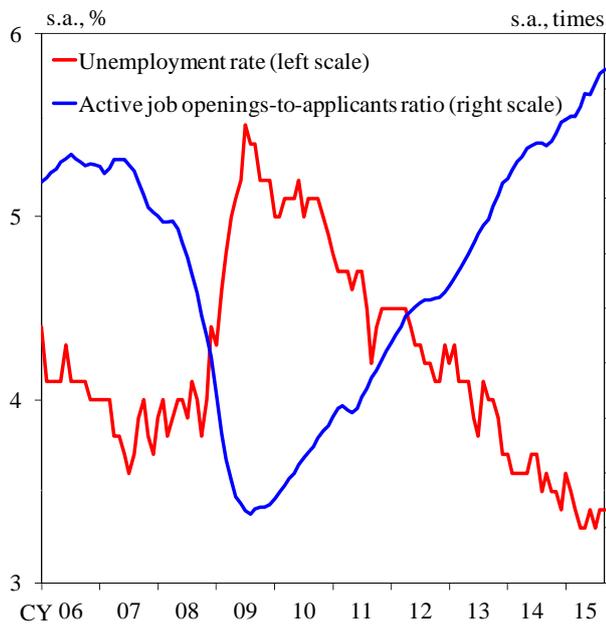


	y/y % chg.			
	2013	2014	Projections 2015	2016
World	3.3	3.4	3.1	3.6
Advanced Economies	1.1	1.8	2.0	2.2
United States	1.5	2.4	2.6	2.8
Euro Area	-0.3	0.9	1.5	1.6
Japan	1.6	-0.1	0.6	1.0
Emerging Market and Developing Economies	5.0	4.6	4.0	4.5
China	7.7	7.3	6.8	6.3
ASEAN5	5.1	4.6	4.6	4.9

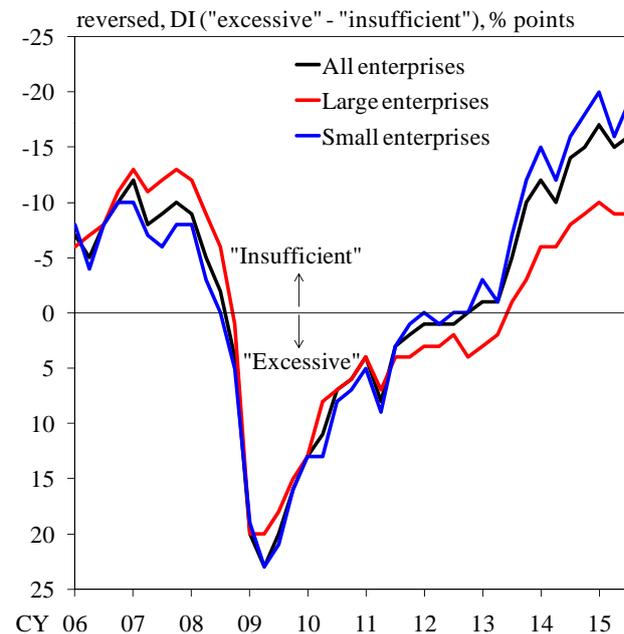
Note: ASEAN5 are Indonesia, Malaysia, the Philippines, Thailand, and Viet Nam.
Source: IMF.

Labor Market Conditions

Unemployment Rate and Job Openings-to-Applicants Ratio



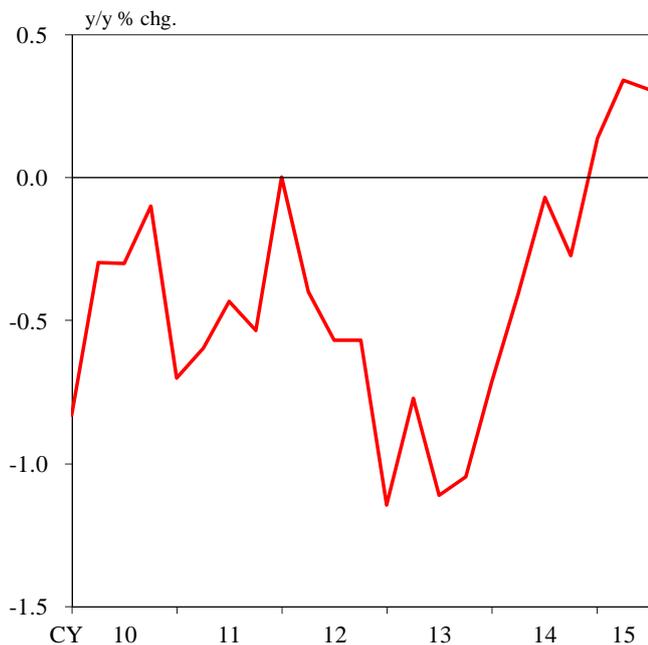
Tankan: Employment Conditions DI



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

Wages

Scheduled Cash Earnings



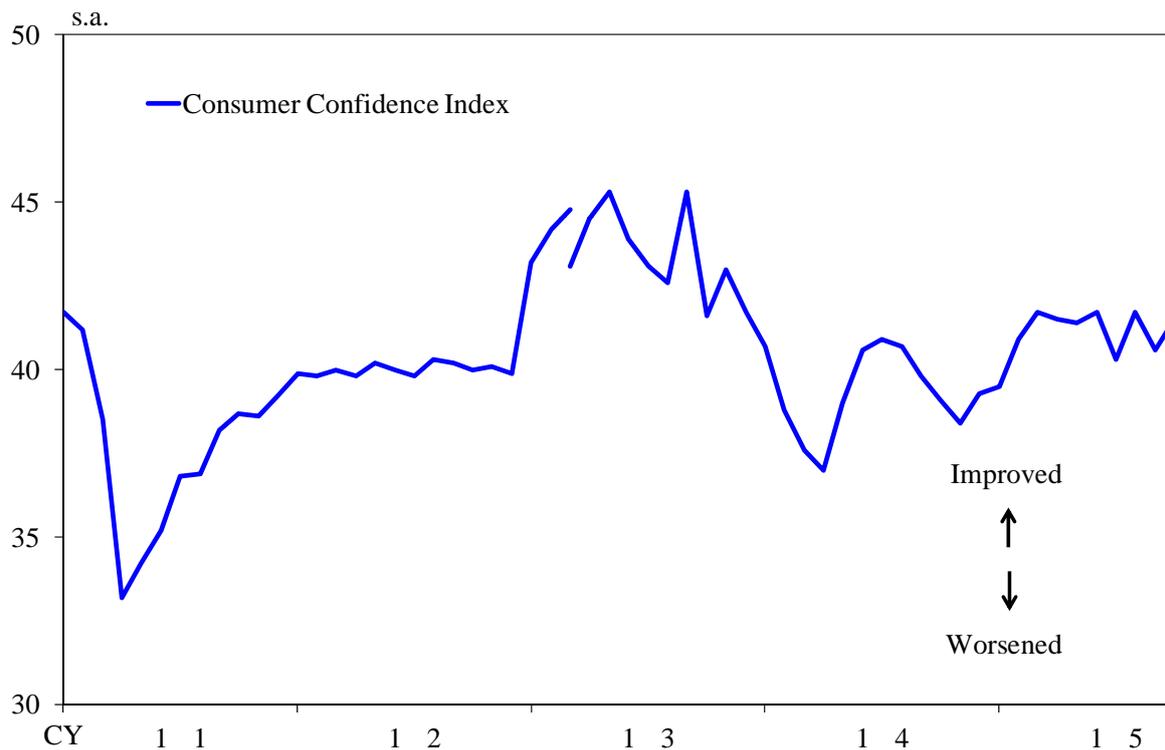
Summer Bonuses

Survey conductor	FY2015 summer
Japan Business Federation (Keidanren)	2.8
Nikkei Inc.	2.1
The Institute of Labour Administration	3.0
Ministry of Health, Labour and Welfare	4.0

Note: The figure for scheduled cash earnings for 2015/Q3 is the July-August average.

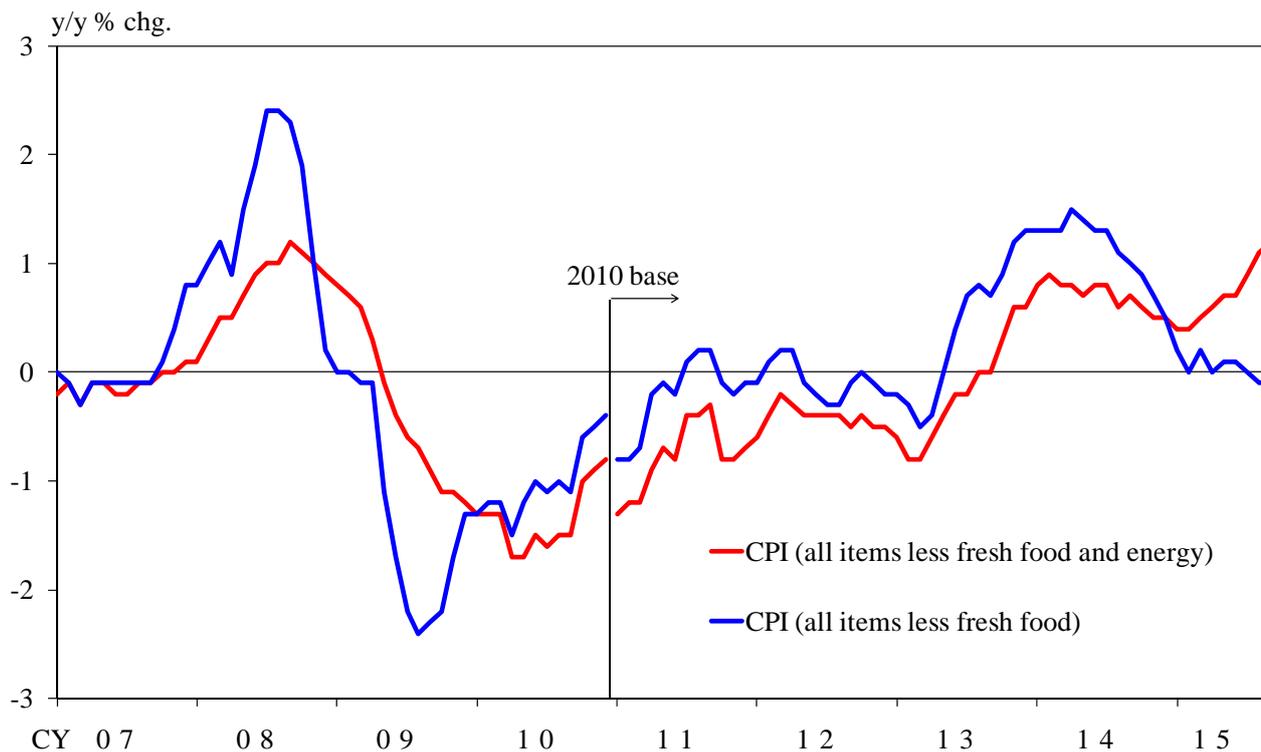
Sources: Ministry of Health, Labour and Welfare; Japan Business Federation (Keidanren); Nikkei Inc.; The Institute of Labour Administration.

Consumer Confidence



Source: Cabinet Office.

Consumer Prices

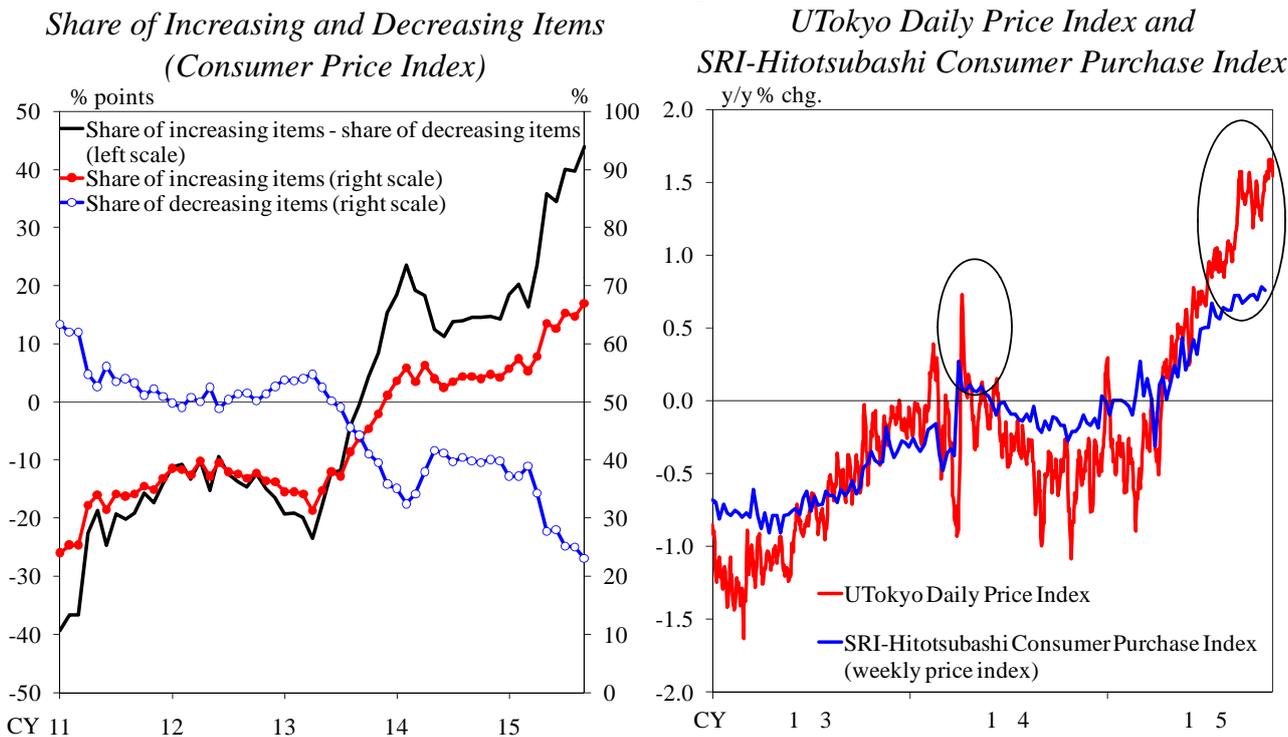


Note: Figures are estimated by adjusting the direct effects of the consumption tax hike in April 2014.

Figures for the CPI (all items less fresh food and energy) are calculated by the Research and Statistics Department, Bank of Japan.

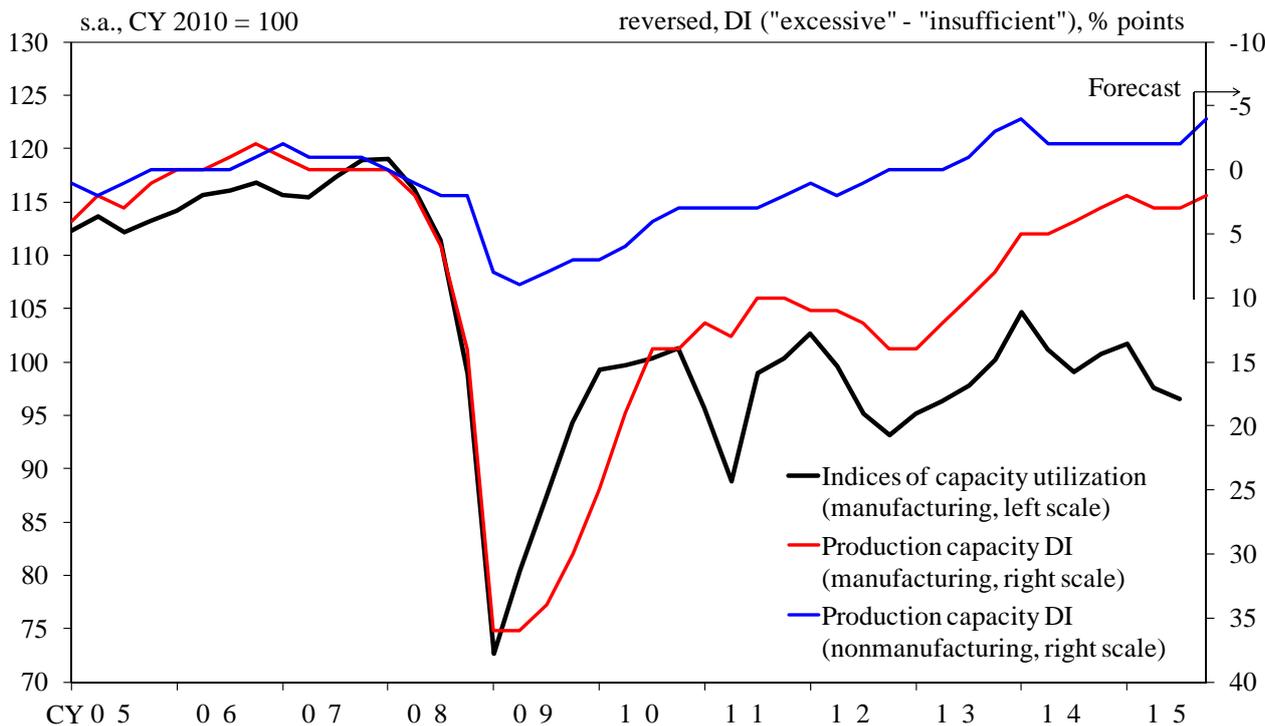
Source: Ministry of Internal Affairs and Communications.

Price Developments



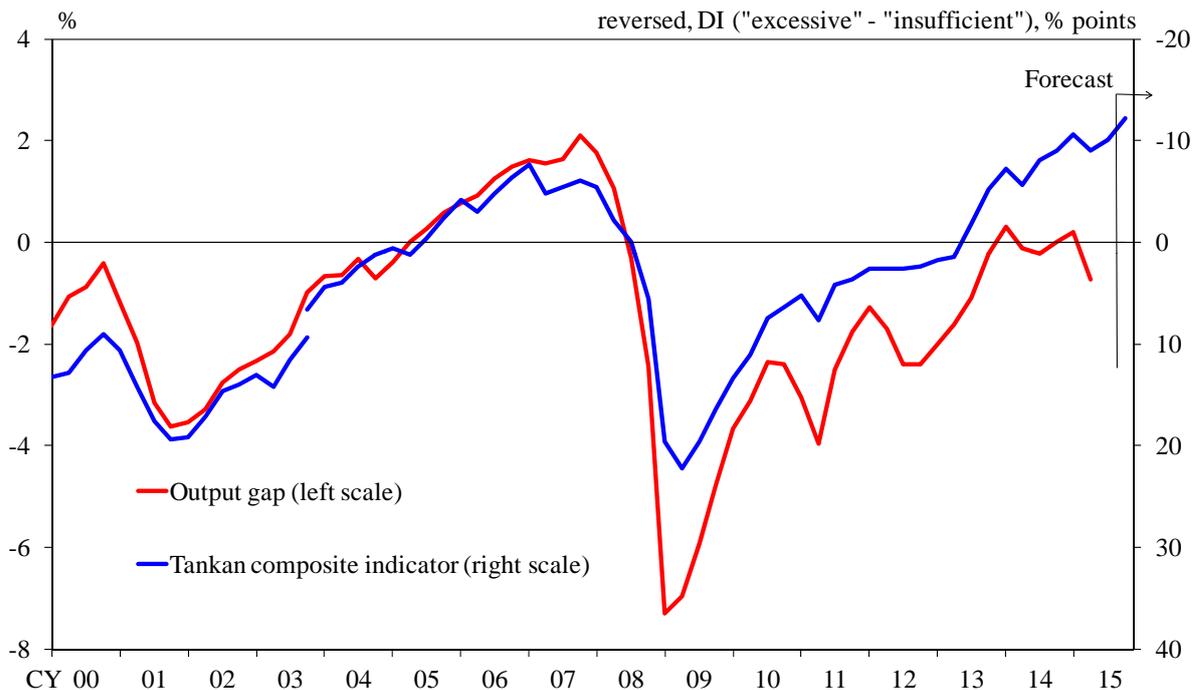
Notes: 1. The share of increasing/decreasing items is the share of items in the consumer price index (all items less fresh food) whose price indices increased/decreased from a year earlier. The price indices are estimated by adjusting the direct effects of the consumption tax hike in April 2014.
 2. The UTokyo Daily Price Index is a 7-day backward moving average.
 Sources: Ministry of Internal Affairs and Communications; UTokyo Daily Price Index Project; Research Center for Economic and Social Risks, Institute of Economic Research, Hitotsubashi University.

Indices of Capacity Utilization



Note: The figure for 2015/Q3 for the indices of capacity utilization is the July-August average.
 Sources: Ministry of Economy, Trade and Industry; Bank of Japan.

Output Gap

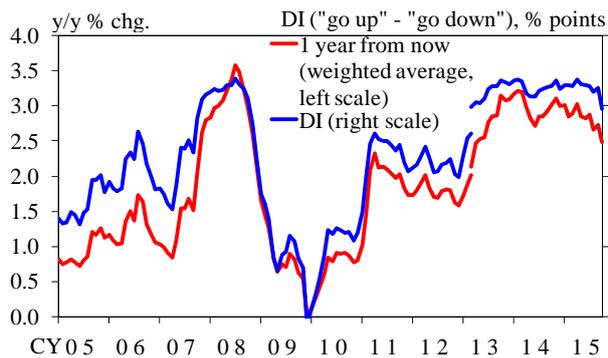


Notes: 1. The output gap is estimated by the Research and Statistics Department, Bank of Japan. For the estimation procedures, see "The New Estimates of Output Gap and Potential Growth Rate," Bank of Japan Review Series, 2006-E-3.
 2. The Tankan composite indicator is calculated as the weighted average of the production capacity DI and employment conditions DI for all enterprises. The fiscal 1990-2013 averages of capital and labor shares in the "National Accounts" are used as weights. There is a discontinuity in the data for the December 2003 survey due to a change in the survey framework.

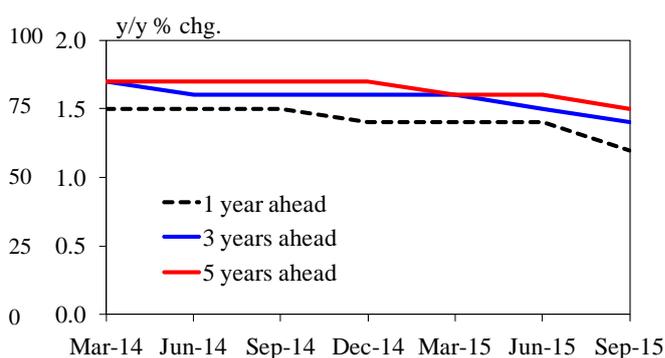
Sources: Cabinet Office; Bank of Japan, etc.

Inflation Expectations

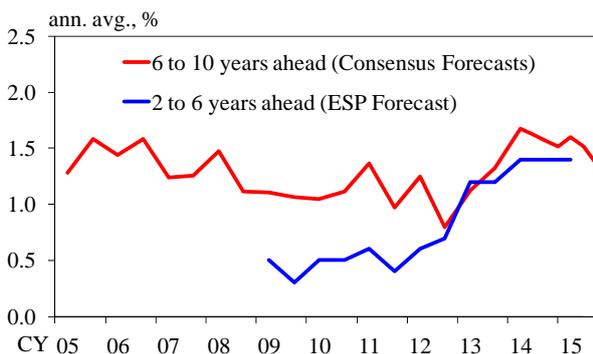
Household (Consumer Confidence Survey)



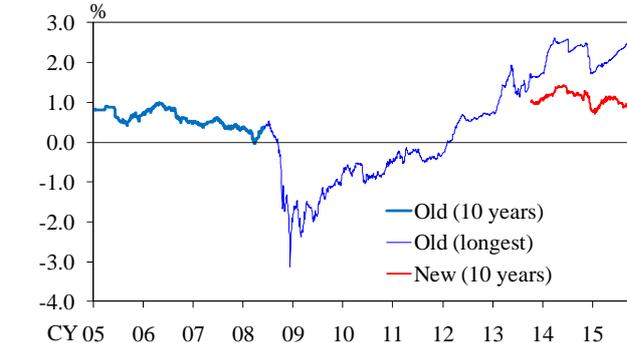
Enterprises (Tankan, General Prices)



Economists

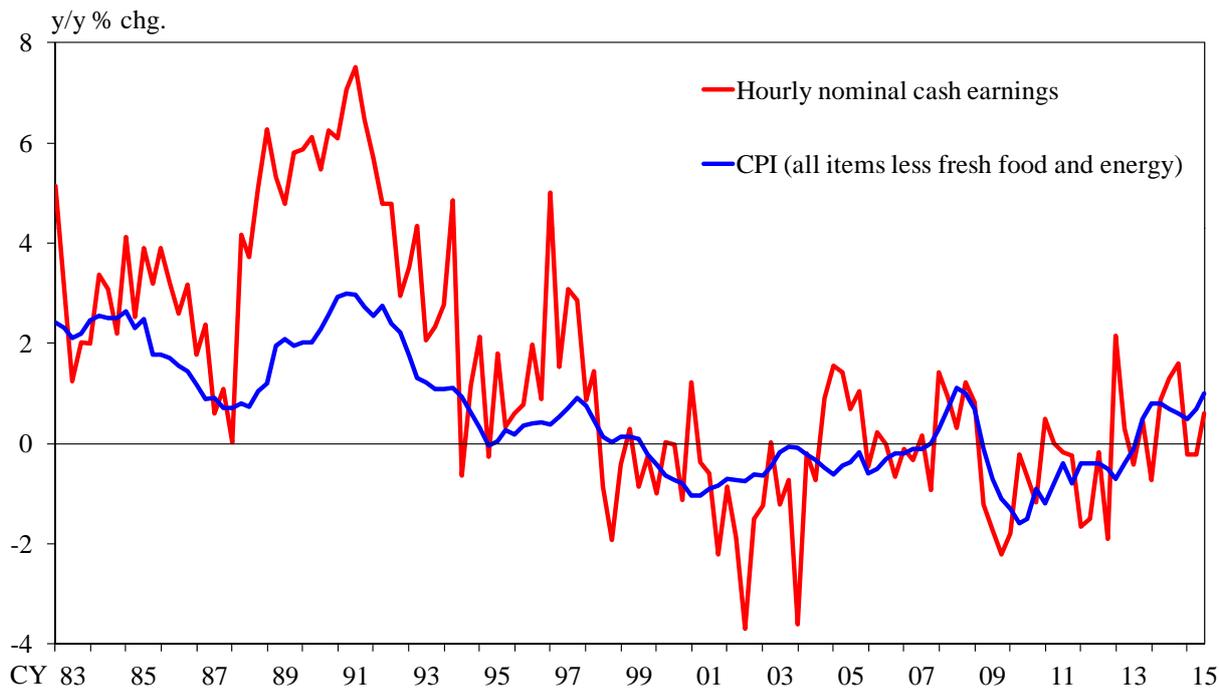


Market Participants (BEI for Inflation-Indexed JGBs)



Sources: Cabinet Office; Bank of Japan; Consensus Economics; JCER; Bloomberg.

Wages and Prices

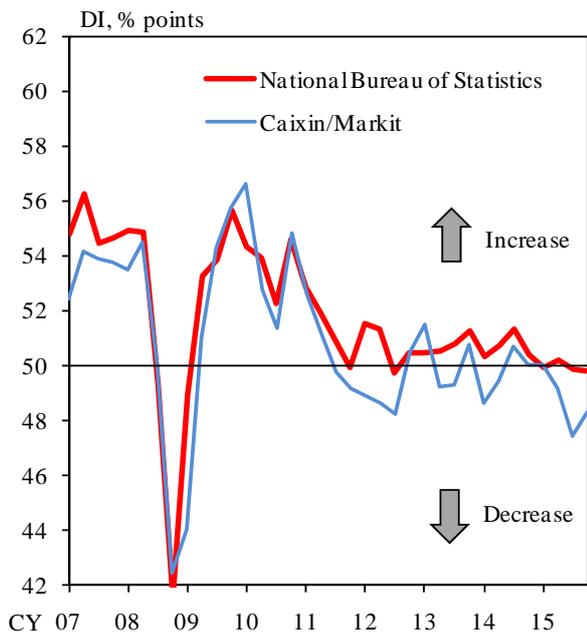


Notes: 1. Figures for hourly nominal cash earnings up through 1990/Q4 are for establishments with 30 or more employees.
 2. Figures for the CPI (all items less fresh food and energy) are calculated by the Research and Statistics Department, Bank of Japan. Those are adjusted to exclude the estimated effect of changes in the consumption tax rate.
 3. Figures for 2015/Q3 are July-August averages.

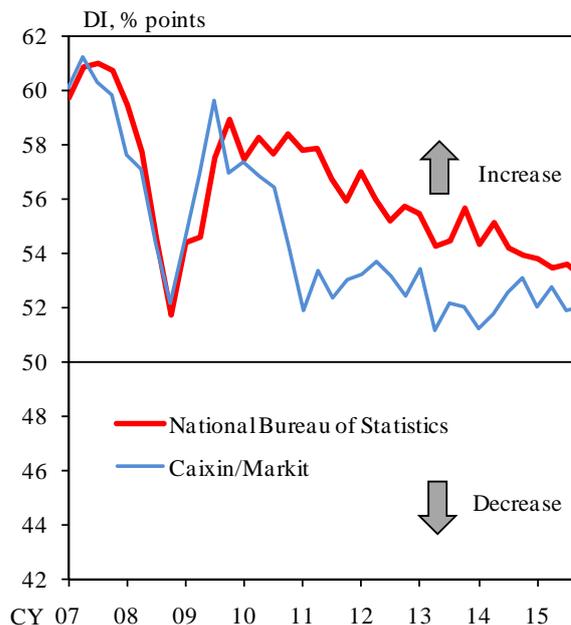
Sources: Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare.

China's PMI

Manufacturing



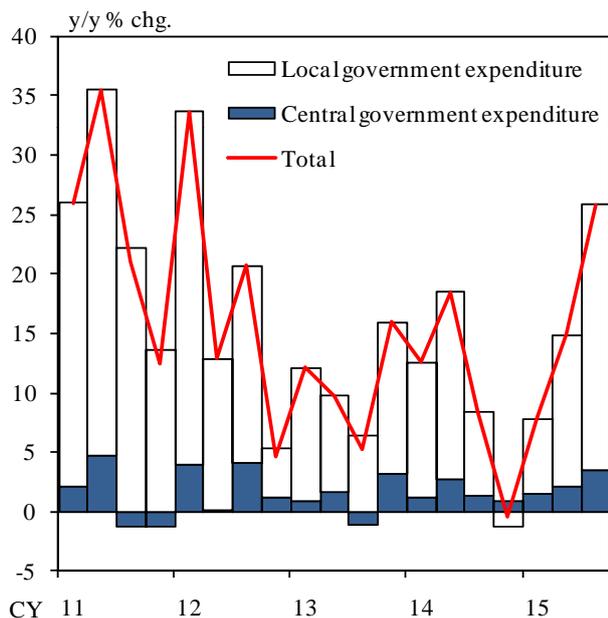
Nonmanufacturing



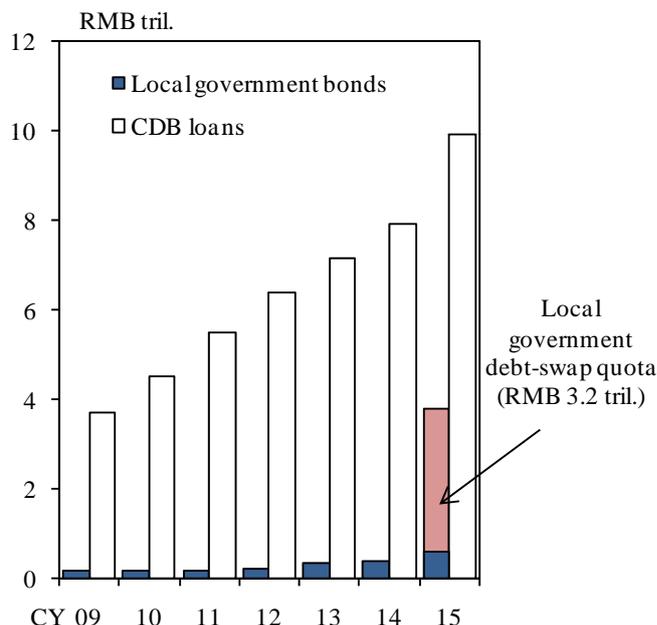
Sources: CEIC; Markit (© and database right Markit Economics Ltd 2015. All rights reserved.)

China's Fiscal Position

Government Expenditure



Local Government Bond Issuance and China Development Bank Loans

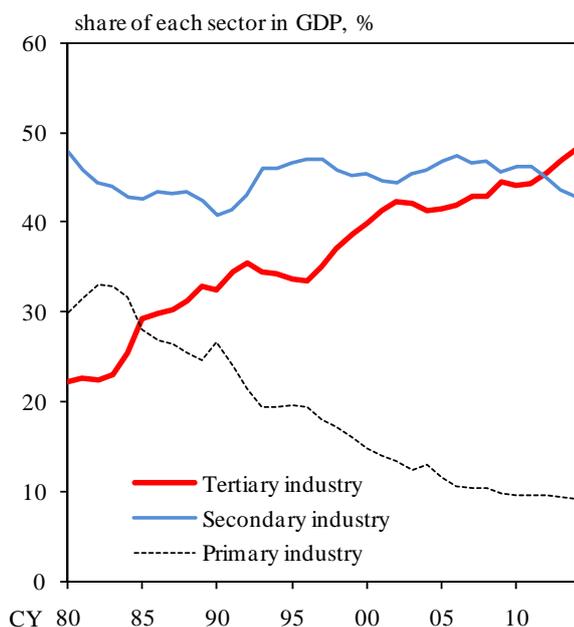


Note: The amount of local government bonds for 2015 is based on the budget draft, and the amount outstanding of CDB loans is based on the prospect by the authority.

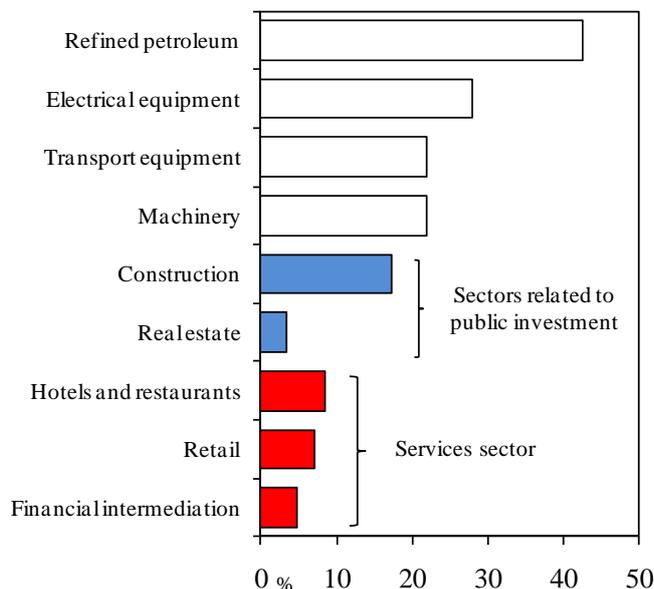
Sources: CEIC; Ministry of Finance of the People's Republic of China; China Development Bank.

Structural Changes in Chinese Economy

Composition of GDP by Sector



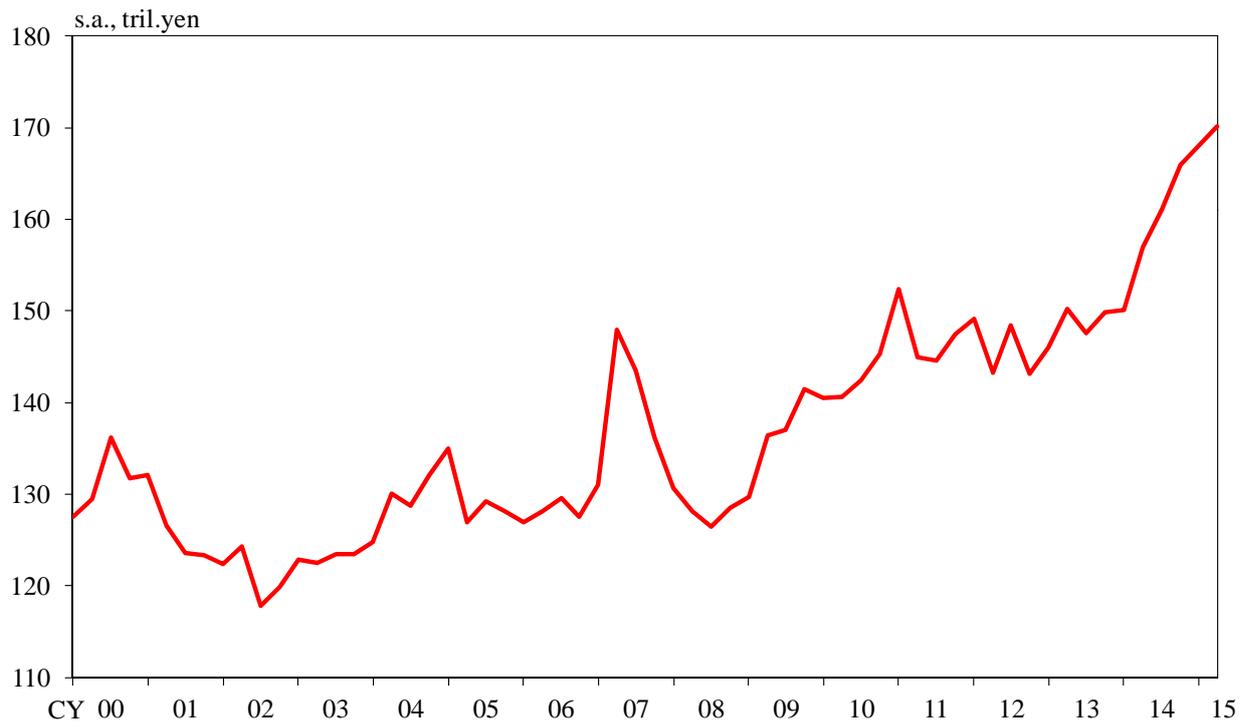
Import Induced by Each Sector



Note: Import induced by each sector refers to the reaction of value-added in a foreign country in response to one unit increase of the final demand in each sector.

Sources: CEIC; WIOD.

Cash Hoarding by the Corporate Sector



Note: Figures exclude those for the finance and insurance industry.
 Source: Ministry of Finance.