May 10, 2018

Bank of Japan

Japan's Economy and Monetary Policy

Speech at the Kisaragi-kai Meeting in Tokyo

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(English translation based on the Japanese original)

Introduction

It is my great pleasure to have the opportunity today to speak at the Kisaragi-kai meeting.

Five years have passed since the Bank introduced quantitative and qualitative monetary easing (QQE) in April 2013, and Japan's economy -- which had been deteriorating under prolonged deflation -- has improved significantly. Recently, corporate profits have been at record high levels, and the labor market is close to full employment. Although the price stability target of 2 percent has not been achieved yet, Japan's economy is at least no longer in deflation, which is generally defined as a sustained decline in prices, after having overcome negative shocks such as the large drop in crude oil prices. Over the past year, the year-on-year rate of change in the consumer price index (CPI) has increased moderately, registering around 1 percent of late. Today, I will first explain in detail the current situation of economic activity in Japan and its outlook, while outlining the *Outlook for Economic Activity and Prices* (Outlook Report) released after the Monetary Policy Meeting (MPM) held at the end of April. Then, I would like to talk about the Bank's thinking behind the conduct of monetary policy.

I. The Current Situation of Economic Activity and Its Outlook

Overseas Economies

Let me start by talking about economic developments. I will first touch on developments in overseas economies.

Overseas economies have continued to grow firmly. The last time I gave a speech at the Kisaragi-kai meeting last December, I referred to the remark by Christine Lagarde, the Managing Director of the International Monetary Fund (IMF), that the global economy is showing "the broadest-based recovery in the last 10 years." In the almost half year since then, this synchronous growth of the global economy, with both the advanced and emerging economies growing in a well-balanced manner, has become more pronounced. Such synchronous growth can also be observed at the industry level (Chart 1). While the global economy had continued to recover moderately over the past few years, led mainly by the nonmanufacturing sector, since around last year, production and trade activity in the manufacturing sector have picked up substantially, reflecting an expansion in IT-related demand due to the use of artificial intelligence (AI) and the Internet of Things (IoT), as well as growing demand for capital goods due to a rise in capital utilization rates on a global basis.

Given such positive cycle operating in a wide range of regions and industries, it is highly likely that overseas economies will continue to grow firmly for the time being. In the IMF's quarterly projections for global economic growth based on its *World Economic Outlook* (WEO), those for 2018 and 2019 were revised upward markedly in April 2018 from the October 2017 projections, with growth expected to register 3.9 percent, exceeding the long-term average since the 1990s. There is, of course, considerable uncertainty as to how long such high economic growth will last. Among advanced economies, the U.S. economy in particular has continued its long recovery phase for nine years already, and the growth pace is projected to decelerate somewhat around 2020. In this context, some have expressed concerns that the U.S. economy might experience a significant downturn, but I consider this risk to be small. The reason is that, in the early phase of the current recovery in the early 2010s, the level of economic activity was low and the growth pace remained very moderate. Therefore, although the economy has been recovering for a long time, there seem to be no signs of overheating, such as an excess build-up of capital and housing stock. Meanwhile, the recovery in emerging economies is likely to take a firmer hold, given that growth rates in commodity-exporting economies -- which had been lagging behind due to the effects of sluggish commodity prices -- have been gradually increasing. Thus, overseas economies are expected to grow firmly, with growth momentum shifting from advanced to emerging economies.

Current Situation of Japan's Economic Activity

Next, I will talk about Japan's economy. The economy has been expanding steadily, albeit at a moderate pace, supported in part by the growth in overseas economies that I just mentioned. The output gap, which represents the utilization of capital and labor, exceeded the long-term average of 0 percent in the second half of 2016, and since then has continued to widen further in positive territory (Chart 2). The diffusion index (DI) for business conditions for all industries and enterprises in the Bank's *Tankan* (Short-Term Economic Survey of Enterprises in Japan) -- which is an indicator of firms' business sentiment --

suggests that business conditions have improved for seven consecutive quarters, reaching the highest level since the early 1990s.

Looking in more detail, in the corporate sector, exports and production have been on an increasing trend (Chart 3). As I mentioned earlier, demand for IT-related and capital goods has been expanding on a global basis, and this has acted as a tailwind for Japan's manufacturing sector, which has a comparative advantage in these goods. In fact, Japan's real exports marked a new record high in November 2017 for the first time in about 10 years, exceeding the peak before the global financial crisis, and have maintained their uptrend. In this situation, corporate profits have been at record high levels, and business fixed investment has continued on an increasing trend. According to the *Tankan*, business fixed investment plans for fiscal 2018 as of March have turned out to be favorable for this time of the year, significantly exceeding the average of the past.

There also has been improvement in the household sector. While labor market conditions have been tightening further, with the unemployment rate declining to about 2.5 percent for the first time since 1993, employee income has continued to increase moderately (Chart 4). Private consumption has been increasing moderately, albeit with fluctuations, against the background of this steady improvement in the employment and income situation.

Outlook for Japan's Economic Activity

Now I will turn to the outlook for Japan's economy. In the latest Outlook Report released at the end of April, the Bank presents its projections for Japan's economic activity through fiscal 2020. In terms of the medians of the Policy Board members' forecasts, the real GDP growth rate is projected to register relatively high growth of 1.6 percent in fiscal 2018 and continue to mark positive growth of 0.8 percent in fiscal 2019 and fiscal 2020 (Chart 5).

In fiscal 2018, the mechanism supporting the current favorable economic conditions is expected to continue operating. Domestic demand is likely to follow an uptrend, mainly against the background of highly accommodative financial conditions and the underpinnings through government spending. Exports are expected to continue their moderate increasing trend on the back of the firm growth in overseas economies. Under these circumstances, in fiscal 2018, the economy is likely to continue growing at a pace above the potential growth rate, which is currently estimated to be in the range of 0.5-1.0 percent.

From fiscal 2019 through fiscal 2020, Japan's economy is expected to continue on an expanding trend, although the growth pace is projected to decelerate somewhat. If the economy performs as projected, the duration of the current recovery phase, which started in December 2012, will be the longest in the post-war era, significantly exceeding the record of 73 months registered during the recovery period in the 2000s (Chart 6). The key issue underlying this outlook are the reasons why the long-lasting recovery is likely to continue. In what follows, I will outline three reasons.

The first is that overseas economies are projected to continue growing firmly in a well-balanced manner in terms of regions and industries, as I explained earlier. Japan's exports are expected to follow an increasing trend supported by this tailwind and continue to firmly underpin the economy.

The second reason is that, even though Japan's economic expansion is becoming quite long, it is likely that the pressure to adjust accumulated capital stock will not heighten as much. In the past, long-lasting economic expansion was accompanied by a capital stock cycle, in which capital stock gradually had built up and capacity utilization rates had declined, thereby suppressing new business fixed investment. It is expected that, during the current recovery phase, capital accumulation will continue to some extent in such areas as construction in the leadup to the Tokyo Olympic Games in 2020. However, in the manufacturing sector, there is a sense that capital stock is still insufficient, mainly due to the increase in exports, and it is likely that the expansion in global IT-related demand underlying this increase in exports will continue to last for a long time. In addition, due mainly to acute labor shortage, many firms in a wide range of industries are actively making labor-saving investment, and in view of the structural decline in the working-age population, these developments are expected to continue going forward. Furthermore, it can be expected that firms' growth expectations will gradually improve. If firms' growth expectations rise, they will revise upward the level of capital stock that they consider necessary for future production activities, creating new investment demand. With the economic and price situation continuing to improve, and coupled with the government's growth strategy, it is expected that firms' sentiment -- which had deteriorated under deflation -- will improve, stimulating investment demand.

The third reason is that private consumption is likely to continue increasing moderately amid the improvement in the employment and income situation. In this context, the consumption tax hike scheduled for October 2019 may affect the economic growth rates going forward. However, the increase in the consumption tax rate is smaller than that of the previous tax hike in 2014, and measures such as a reduced tax rate and free education will be implemented. Therefore, the increase in the household burden as well as the negative impact on private consumption and the economic growth rates are expected to be smaller than after the last tax hike.

Risks to Economic Activity

There are, of course, upside and downside risks to this baseline scenario of the outlook for Japan's economic activity.

One of the risk factors is the U.S. economic policies, especially the heightening uncertainties over its protectionist trade policy. As stated in the Group of Twenty (G-20) communiqué, "[i]nternational trade and investment are important engines of growth, productivity, innovation, job creation and development." Therefore, if protectionist moves were to spread globally, they could hamper trade activity, which finally has been recovering, and constrain global economic growth. As economies have become increasingly interdependent through global value chains, countries that adopt protectionist policies may face disadvantages in that such policies could impede necessary imports. Therefore, a brake is expected to be put on excessive protectionist moves at some point, but we will not be complacent and will closely monitor the situation.

The effects of major economies' policies on global financial markets also warrant attention. For instance, global equity markets have been unstable since February this year, and it is said that this was triggered by a sharp increase in long-term interest rates reflecting the fact that U.S. wage growth exceeded market expectations, which gave rise to speculation that the pace of policy rate hikes by the Federal Reserve could accelerate. In addition, the uncertainties over U.S. trade policy that I mentioned earlier have been cited as another reason for the recent volatility in stock prices in various countries and foreign exchange rates. With the fundamentals of major economies remaining favorable, financial markets have been regaining some calmness, but markets sometimes move suddenly, triggered by minor matters. As volatility in financial markets may affect firms' and households' sentiment, we will pay constant attention to financial market developments.

Turning to domestic risk factors, we need to bear in mind uncertainty regarding the effects of the scheduled consumption tax hike that I mentioned earlier, as well as both upside and downside risks to developments in firms' growth expectations. For example, firms may not abandon the cautious mindset that had become entrenched under deflation and easily embark on proactive investment activities. On the other hand, it is also possible that, amid rising growth expectations, there may be a major switch among firms to start using the high level of accumulated corporate savings for proactive investment.

II. Current Situation of and Outlook for Prices

Current Situation of and Outlook for Prices

Next, I will move on to price developments in Japan. The year-on-year rate of change in the CPI excluding fresh food has increased to around 1 percent. The rise in energy prices partly contributed to this, and the rate of change in the CPI for March excluding fresh food and energy was 0.5 percent (Chart 7). The Bank has not changed its basic assessment that prices have continued to show relatively weak developments compared to the economic expansion and the labor market tightening. Nevertheless, the year-on-year rate of change in the CPI has been rising steadily for over a year, albeit at a moderate pace, and the momentum toward achieving the price stability target of 2 percent is firmly maintained.

Going forward, the year-on-year rate of change in the CPI is likely to continue on an uptrend and increase toward 2 percent, mainly on the back of an improvement in the output gap and a rise in medium- to long-term inflation expectations. This baseline scenario is unchanged from the previous ones. The medians of the Policy Board members' forecasts of the year-on-year rate of change in the CPI excluding fresh food are 1.3 percent for fiscal 2018 and 1.8 percent for both fiscal 2019 and fiscal 2020 (Chart 8).

The Inflation Mechanism

I would now like to explain the mechanism through which inflation will rise toward 2 percent. The Bank conceptually divides this mechanism into two steps. First, the output gap improves in line with economic expansion, which will raise actual prices by making firms' wage- and price-setting stance more proactive. Second, as actual prices increase, firms' and households' medium- to long-term inflation expectations rise, which will further push up the actual inflation rate.

As for the first step, the improvement in the output gap is steadily pushing up wages and prices. In terms of wages, those of not only part-time but also full-time employees are rising against the backdrop of tightening labor market conditions. According to various surveys, the rate of increase in base pay for fiscal 2018 has exceeded the actual rate for last year, and the proportion of firms that are increasing wages for full-time employees has also increased (Chart 9). Firms are also increasingly reflecting rising wage costs in their sales prices. In the March *Tankan*, the DI for output prices for small enterprises, following that for large enterprises, has turned positive for the first time in 27 years, since 1991 (Chart 10). Thus, the first step of the mechanism is working steadily. While it cannot be denied that the momentum of prices is not yet sufficiently firm compared to the economic expansion, the year-on-year rate of change in the CPI excluding fresh food and energy has continued to rise moderately since bottoming out in March 2017.

Next is the second step of the mechanism: whether actual price increases have led to a rise in medium- to long-term inflation expectations. In this regard, recent trends indicate that inflation expectations have been more or less unchanged, although they have moved out of the weakening phase (Chart 11).

Given these circumstances, going forward, it is important for the second step of the mechanism in particular to operate more clearly toward achieving the price stability target of 2 percent. To that end, it is necessary for the first step to continue operating amid the long-lasting recovery, so that actual price increases affect people's perception of prices and firmly push up inflation expectations through the adaptive formation mechanism. Going forward, if firms and households become increasingly confident that improvements in economic activity and prices are not temporary, the mindset and behavior based on the assumption that wages and prices will not increase will change and inflation expectations will rise firmly. The spread of base pay increases in the past few years can be regarded as an indication of such change. If people's deflationary mindset changes, the forces that let inflation expectations converge to the 2 percent target that the Bank is committed to achieving -- that is, the operation of the forward-looking formation mechanism -- will become much stronger.

Risks to Prices

Regarding the aforementioned baseline scenario of the outlook for prices, the Bank's assessment is that risks are skewed to the downside. For example, if there is strong uncertainty about future growth, firms will hesitate to raise wages in view of increasing employment to expand their business. In that case, the pace of increase in actual wages and prices -- that is, the operation of the first step of the inflation mechanism -- may be weaker than expected. Moreover, even if firms' wage- and price-setting stance becomes more proactive, inflation expectations may not rise smoothly; in other words, the second step of the mechanism may not operate fully. Past experience suggests that there is a certain time lag before actual inflation affects inflation expectations and the length of this lag is highly uncertain. So far, there has not been enough academic literature on the learning process through which firms and households revise their inflation expectations upward when faced with actual price rises. Taking into consideration that the experience of 15 years of deflation had become deeply entrenched in people's mindset and behavior, we need to keep in mind that it might take a fair amount of time before actual inflation starts to affect inflation expectations.

Thus, in a situation where there are various risks and uncertainty is high, with a view to making an assessment of the outlook for prices and being accountable for this, it would not be proper -- and not represent adequate information dissemination by the Bank -- to attract excessive attention merely to forecast figures. As also highlighted by Federal Reserve

Chairman Powell, it is difficult to make accurate forecasts about future economic developments, and too much emphasis should not be placed on the medians of board members' forecasts. Regarding the timing of the year-on-year rate of change in the CPI reaching around 2 percent, up until the previous January 2018 Outlook Report, the Bank provided specific descriptions such as that this would likely be around fiscal 2019; however, the latest report does not include such descriptions. The Bank believes that giving a detailed and articulate explanation on price developments based on a comprehensive assessment -- including the mechanism through which the year-on-year rate of change in the CPI increases toward 2 percent and the assessment of risks -- leads to more appropriate communication to the public.

III. The Conduct of Monetary Policy

Let me now turn to the Bank's conduct of monetary policy. The Bank has been pursuing powerful monetary easing with a view to achieving the price stability target of 2 percent. Specifically, under the framework of "QQE with Yield Curve Control" introduced in September 2016, it facilitates the formation of the yield curve that is considered most appropriate for achieving the 2 percent target judged on the basis of developments in economic activity and prices as well as financial conditions. At the MPM held at the end of last month, the Bank maintained the guideline for market operations, in which the short-term policy interest rate is set at minus 0.1 percent and the target level of the 10-year Japanese government bond (JGB) yields at around zero percent.

The thinking behind this conduct of monetary policy is as follows. First of all, taking a look at developments in economic activity and prices, the economy has been improving steadily, but prices have not yet been sufficiently firm compared to the degree of improvement in the economy, as I mentioned earlier, and thus there is still a long way to go to achieve the price stability target of 2 percent. Downside risks to prices also warrant attention. Therefore, from the perspective of developments in economic activity and prices, it is necessary for the Bank to continue to pursue powerful monetary easing in line with the current guideline for market operations.

Next, I would like to talk about the assessment of financial conditions. In the conduct of monetary policy, it is necessary to pay attention to both signs of overheating where financial imbalances build up and the stability of the financial system is impaired, as well as signs of a gradual pullback, in which financial institutions' profit environment deteriorates and their financial intermediation functioning declines. Regarding overheating, there is no sign so far of excessively bullish expectations in asset markets or in the activities of financial institutions. As for risks of a gradual pullback in financial intermediation, it has been pointed out that powerful monetary easing including negative interest rates affects financial institutions' profits and the functioning of financial intermediation, for example by reducing lending margins. Going forward, attention needs to be paid to the possibility that, if the low interest rate environment continues and downward pressure on financial institutions' profits becomes prolonged, this may have a cumulative effect on their financial strength and, as a result, the functioning of financial intermediation may be undermined. However, because Japanese financial institutions have sufficient capital bases, the Bank judges that there is no critical problem at this point in the functioning of financial intermediation due to a deterioration in profits. This is also evidenced by financial institutions' continued proactive lending attitudes (Chart 12).

These examinations indicate that, at present, the yield curve that the Bank is currently aiming at is sufficiently effective in stimulating economic activity and prices while avoiding a negative impact on financial intermediation; in other words, the Bank judges the current yield curve to be the most appropriate for maintaining the momentum toward achieving the price stability target of 2 percent.

When examining developments in economic activity and prices as well as financial conditions under the framework of "QQE with Yield Curve Control," it is important to pay attention to the difference between real and nominal interest rates. When assessing the extent to which interest rates stimulate economic activity and prices, it is essential to consider the level of real interest rates, which is calculated by subtracting inflation expectations from nominal interest rates. Looking ahead, if real interest rates decline as inflation expectations rise, the stimulative effect on economic activity and prices will become stronger. In addition, as the potential growth rate of the economy rises with progress in implementation of the government's growth strategy and firms' continued efforts toward improving productivity, the natural rate of interest is projected to rise, and this is expected to enhance monetary easing effects. Going forward, the Bank will continue to pursue powerful monetary easing while taking advantage of this mechanism embedded in the framework of "QQE with Yield Curve Control" in order to achieve the price stability target of 2 percent at the earliest possible time.

Lastly, I would like to make one more point. As mentioned earlier, the Bank has been conducting monetary policy while examining whether the momentum toward 2 percent inflation is being maintained, taking into account developments in economic activity and prices as well as financial conditions. The Bank has not set a specific deadline for achieving 2 percent inflation and does not conduct monetary policy with such a deadline in mind. The latest Outlook Report does not include a description on the projected timing of reaching around 2 percent inflation, and this partly aims to clarify this policy stance. Nevertheless, I would like to stress that this does not mean that the significance or nature of the price stability target has changed. Since the introduction of QQE in 2013, the Bank has committed itself to achieving the price stability target of 2 percent at the earliest possible time and continued to conduct large-scale monetary easing to underpin this commitment. Clearly demonstrating this determination is indispensable in changing the deflationary mindset that had become entrenched among people. The commitment to achieving 2 percent inflation at the earliest possible time has not changed.

Conclusion

Today, I have talked about Japan's economic and price developments and the Bank's conduct of monetary policy. Over the past five years, Japan's economic activity and prices have improved significantly, and are proceeding along a steady path toward achieving the price stability target of 2 percent. In that sense, QQE certainly has been producing its intended effects.

On the other hand, it has become apparent that people's deflationary mindset is more deeply entrenched than expected, and that changing such mindset will take time. To make this happen, the current virtuous cycle of the economy -- in which the inflation rate gradually rises as corporate profits, employment, and wages increase -- needs to be maintained. With a view to achieving the price stability target of 2 percent, the Bank will continue to pursue powerful monetary easing with persistence and do its utmost to support such positive developments.

Thank you very much for your attention.

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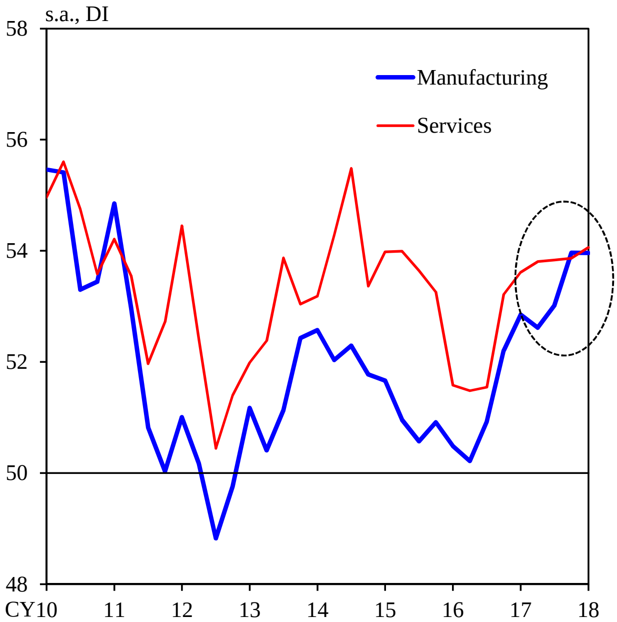
Global Economy

Global PMI



IMF Projections of Real GDP Growth by Major Economies (as of April 2018)

y/y % chg.

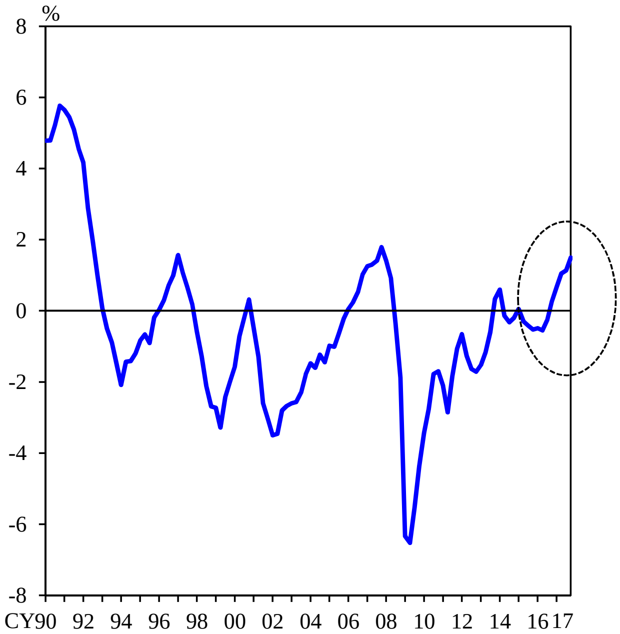
	2016	2017	2018 [Projection]	2019 [Projection]
World	3.2	3.8	3.9 (+0.2)	3.9 (+0.2)
Advanced economies	1.7	2.3	2.5 (+0.5)	2.2 (+0.4)
United States	1.5	2.3	2.9 (+0.6)	2.7 (+0.8)
Euro area	1.8	2.3	2.4 (+0.5)	2.0 (+0.3)
Japan	0.9	1.7	1.2 (+0.5)	0.9 (+0.1)
Emerging market and developing economies	4.4	4.8	4.9 (0.0)	5.1 (+0.1)
China	6.7	6.9	6.6 (+0.1)	6.4 (+0.1)
ASEAN 5	5.0	5.3	5.3 (+0.1)	5.4 (+0.1)

Notes: 1. Figures for the manufacturing PMI are the "J.P.Morgan Global Manufacturing PMI," and those for the services PMI are the business activity index of the "J.P.Morgan Global Services PMI."
2. Figures in parentheses in the right chart show the differences from the October 2017 projections (% points).

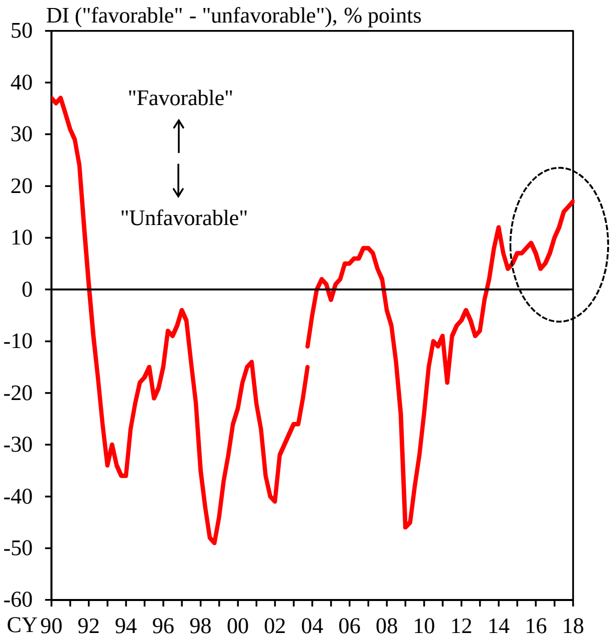
Sources: IHS Markit (© and database right IHS Markit Ltd 2018. All rights reserved.); IMF.

Japan's Economy

Output Gap



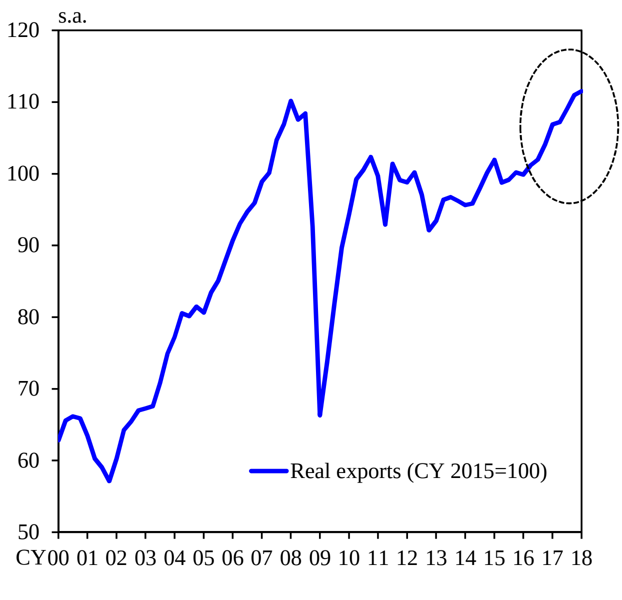
Business Conditions DI (Tankan)



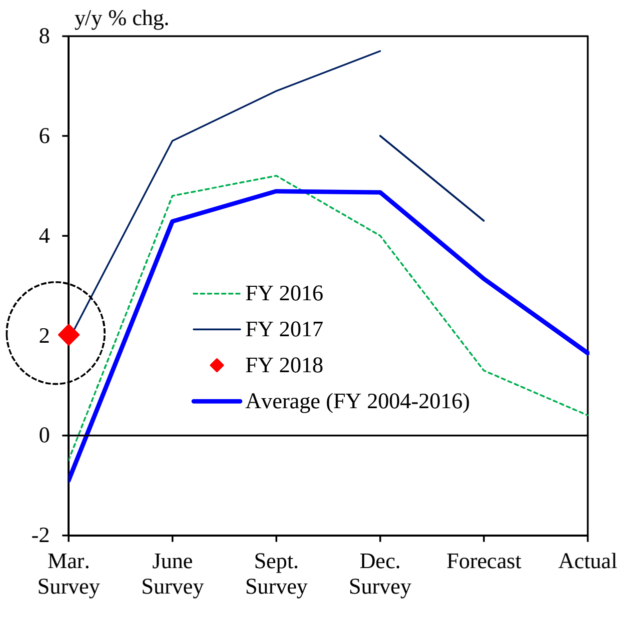
Notes: 1. Figures for the output gap are based on BOJ staff estimations.
2. Figures for the business conditions DI are those for all industries and enterprises. There is a discontinuity in the data in December 2003 due to a change in the survey framework.
Source: Bank of Japan.

Corporate Sector

Exports



Developments in Business Fixed Investment Plans (Tankan)

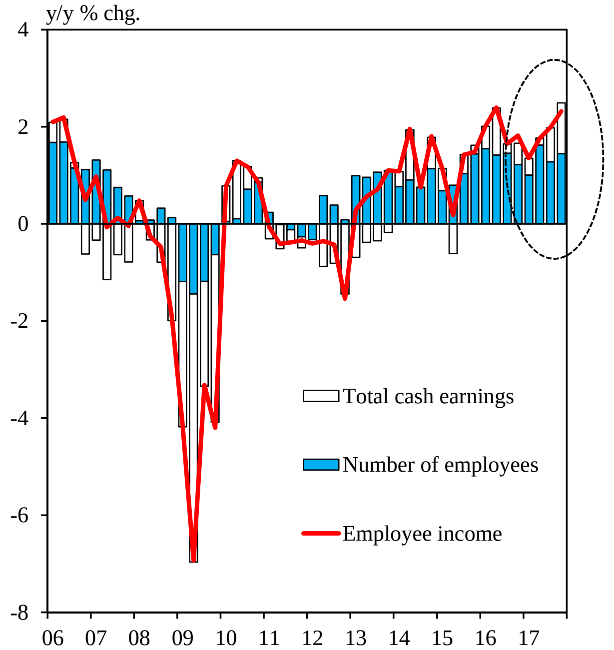


Note: The right chart indicates the revision patterns of fixed investment plans. The horizontal axis represents the point of time when the survey is conducted for each fiscal year. Namely, the first survey for each year (March survey) is on the left, and the last survey (June survey of the following year; actual result) is on the right. The vertical axis represents the year-on-year percent change. All industries including financial institutions. Including software and R&D investment and excluding land purchasing expenses (R&D investment is not included up until the December 2016 survey). There is a discontinuity in the data in December 2017 due to a change in the survey sample.
Sources: Bank of Japan; Ministry of Finance.

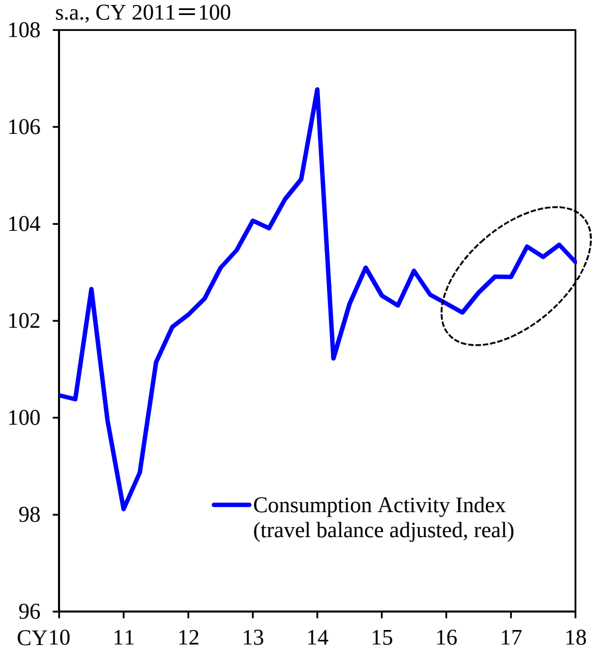
Chart 4

Household Sector

Employee Income



Private Consumption

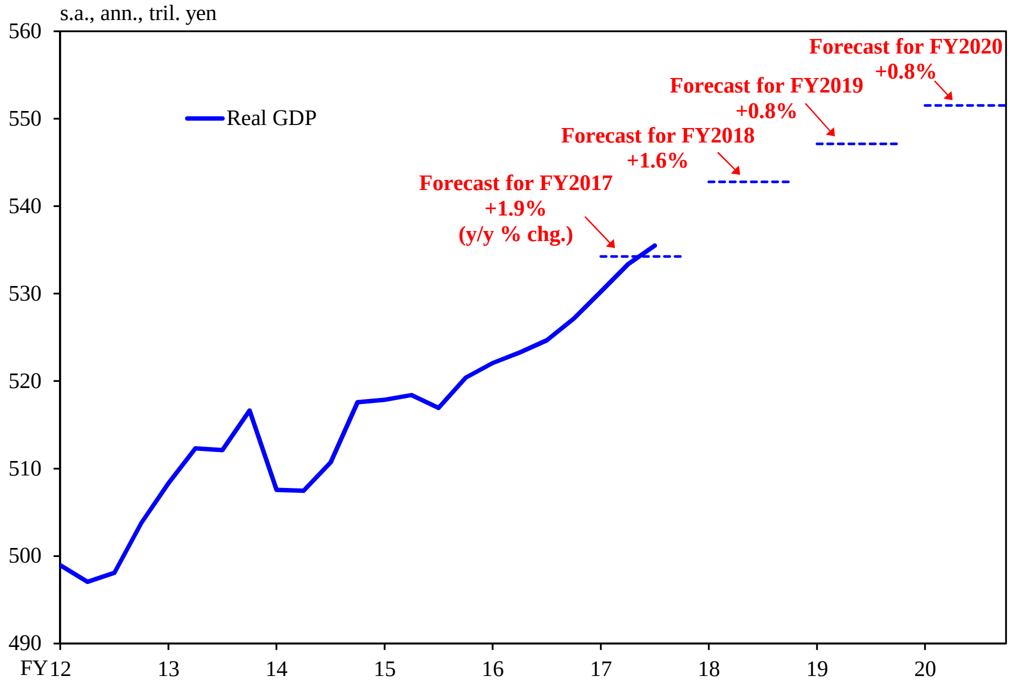


Notes: 1. For employee income, Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
2. Employee income = total cash earnings ("Monthly Labour Survey") × number of employees ("Labour Force Survey")
3. Figures for the Consumption Activity Index exclude inbound tourism consumption and include outbound tourism consumption (BOJ staff calculations).
Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications; Bank of Japan.

Chart 5

BOJ's Forecasts of the Real GDP

(April 2018 Outlook Report)



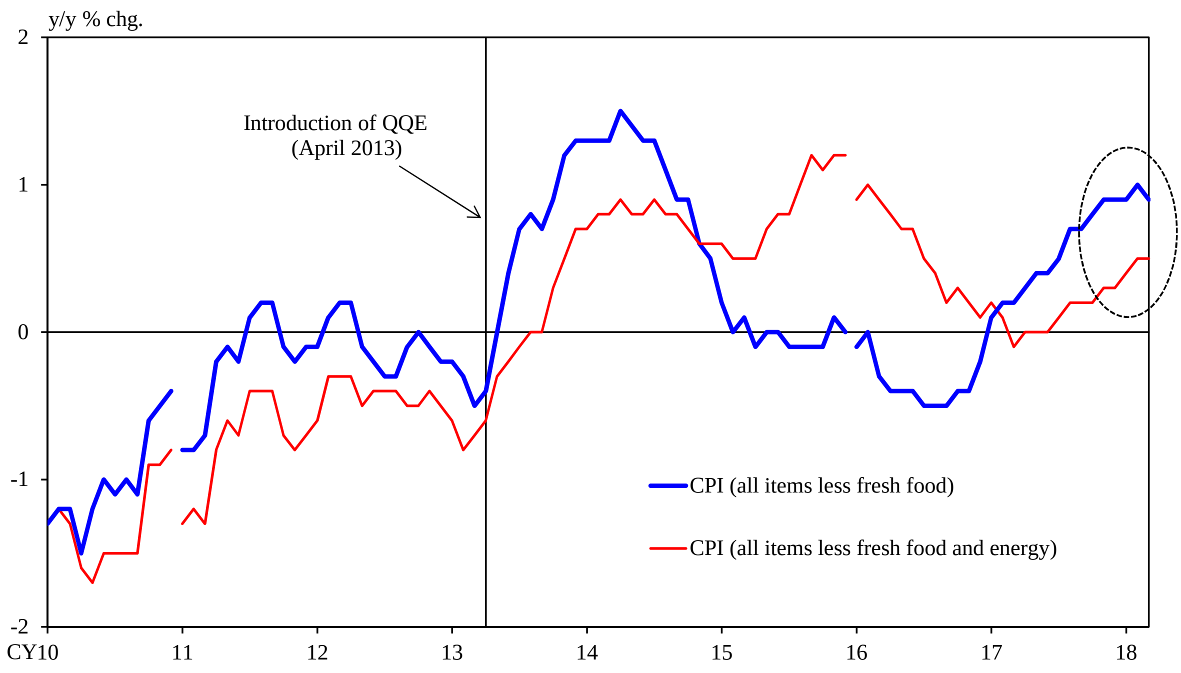
Note: Forecasts are the medians of the Policy Board members' forecasts (point estimates).
Sources: Cabinet Office; Bank of Japan.

Length of Economic Recovery Period

Rank	Period	Duration
1	February 2002-February 2008	73 months
2	December 2012- (Current)	64 months
3	November 1965-July 1970 (Izanagi boom)	57 months
4	December 1986-February 1991 (Heisei boom)	51 months
5	November 1993-May 1997	43 months

Note: Economic peaks and troughs are judged based on discussions by experts after waiting for data accumulation. The current recovery phase, which started in December 2012, seems to have lasted for 64 consecutive months by March 2018.
Sources: Cabinet Office, etc.

Consumer Prices

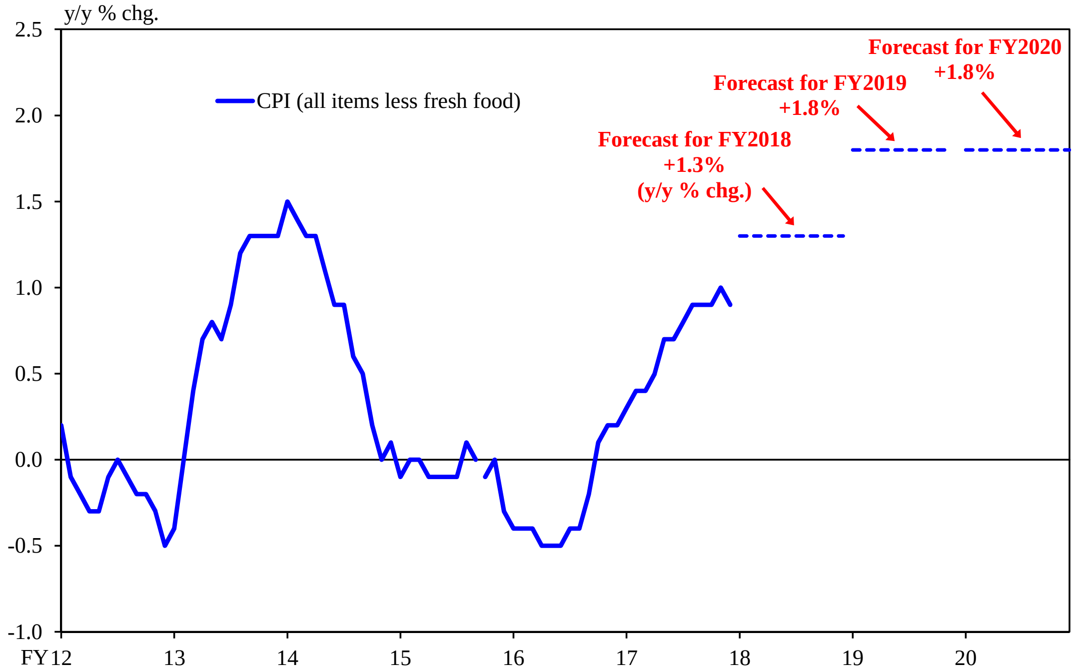


Note: Figures are adjusted for changes in the consumption tax rate.
Source: Ministry of Internal Affairs and Communications.

Chart 8

BOJ's Forecasts of the CPI

(April 2018 Outlook Report)

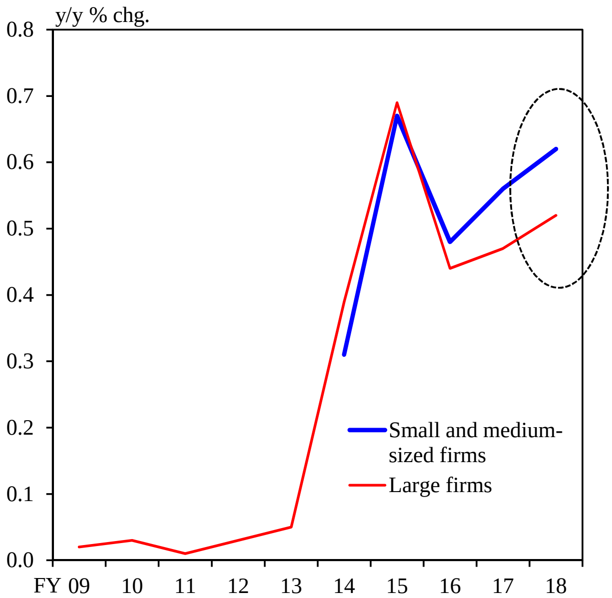


Note: Actual figures are adjusted for changes in the consumption tax rate. Forecasts are the medians of the Policy Board members' forecasts excluding the effects of the scheduled consumption tax hike (point estimates).
Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

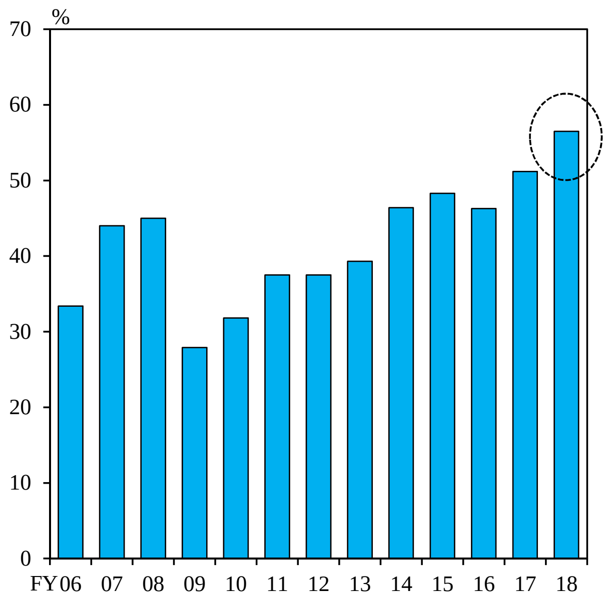
Chart 9

Firms' Wage-Setting Stance

Base Pay Increase



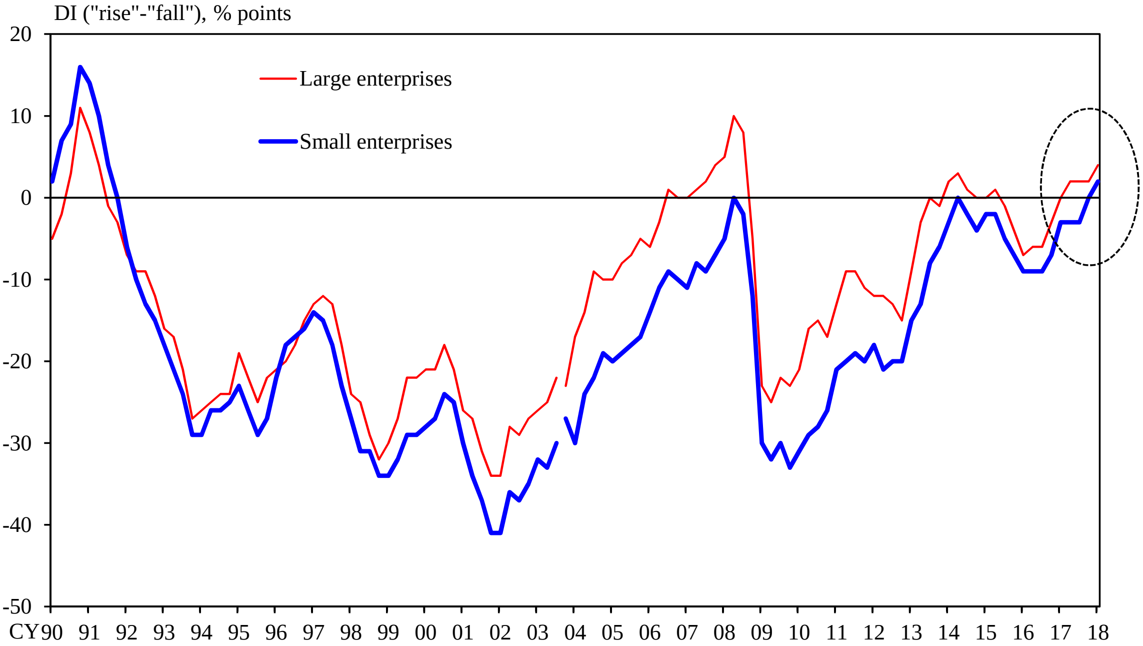
Wage Increases for Full-Time Employees (Ratio of Firms Planning to Increase Wages)



Notes: 1. Figures for the base pay increase up to fiscal 2013 are based on the survey by the Central Labour Relations Commission, and those from fiscal 2014 onward are based on the survey by the Japanese Trade Union Confederation (Rengo). Large firms up to fiscal 2013 are defined as firms with 1,000 or more employees, and those from fiscal 2014 onward are defined as firms with 300 or more employees. Figures for fiscal 2018 are based on the fourth aggregate results as of mid-April.
2. Figures for wage increases for full-time employees are based on the survey results concerning firms' wage-setting stance (increases in base pay, bonuses, and lump-sum payments).
Sources: Central Labour Relations Commission; Japanese Trade Union Confederation (Rengo); Teikoku Databank, Ltd.

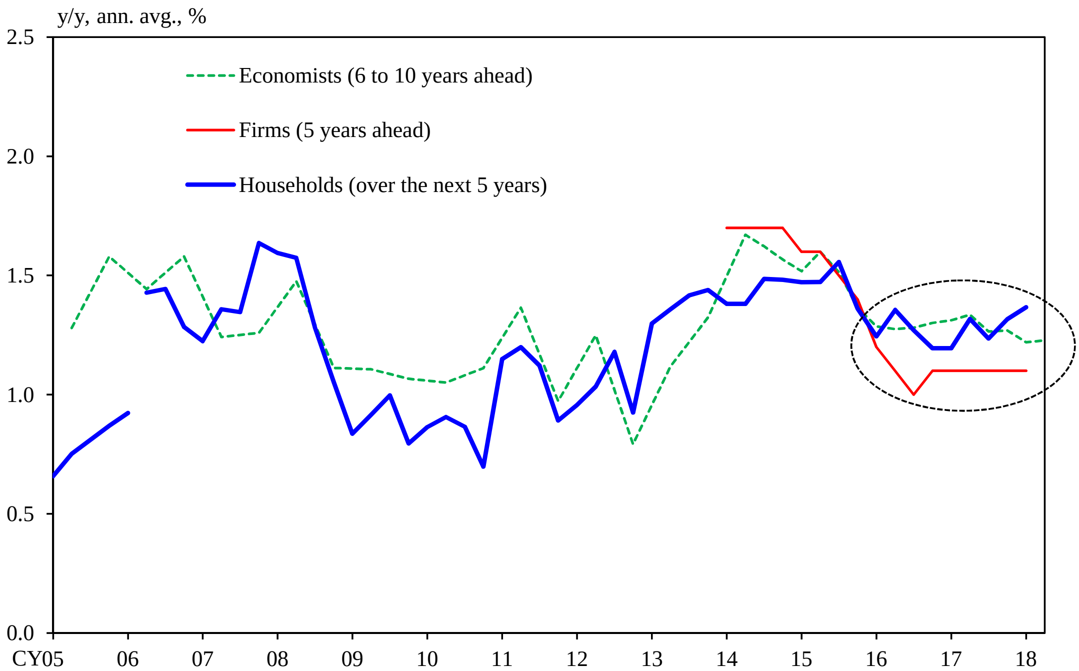
Firms' Price-Setting Stance

Change in Output Prices DI (Tankan)



Note: All industries. There is a discontinuity in the data in December 2003 due to a change in the survey framework.
Source: Bank of Japan.

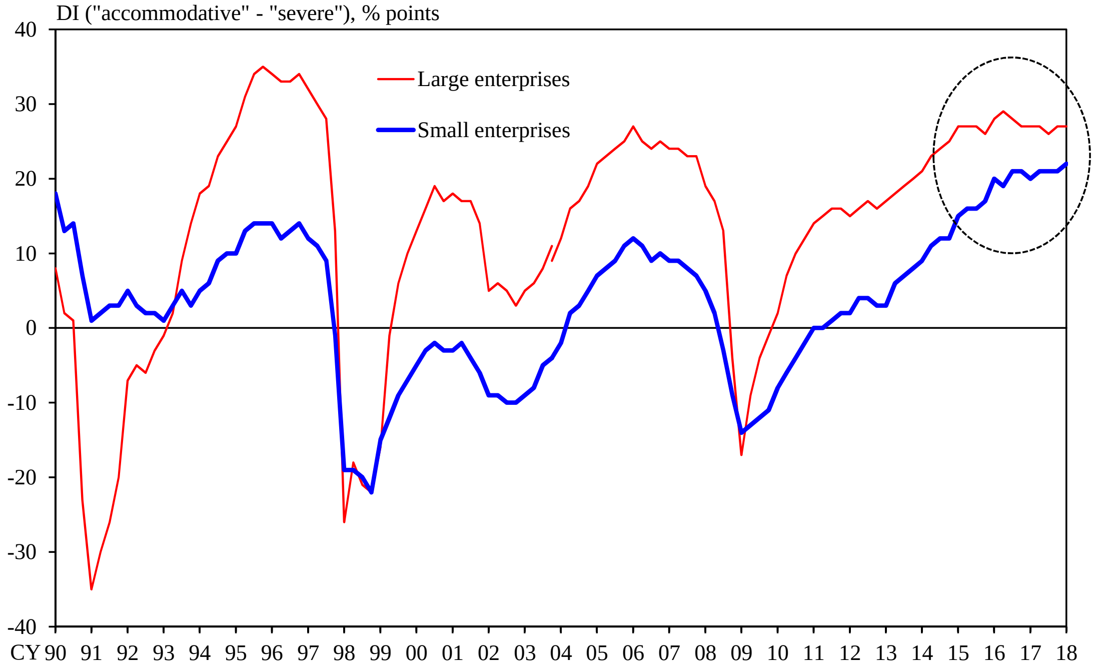
Inflation Expectations



Notes: 1. Figures for economists are from the "Consensus Forecasts," those for firms are "Outlook for General Prices" in the *Tankan* survey (all industries and enterprises, average), and those for households are from the "Opinion Survey on the General Public's Views and Behavior."
2. Figures for households exclude inflation expectations by respondents whose annual inflation expectations were ±5% or greater.
Sources: Consensus Economics Inc., "Consensus Forecasts"; Bank of Japan.

Financial Intermediation

Lending Attitude DI of Financial Institutions (Tankan)



Note: All industries. There is a discontinuity in the data in December 2003 due to a change in the survey framework.
Source: Bank of Japan.