



Economic Activity, Prices, and Monetary Policy in Japan

Speech at a Meeting with Local Leaders in Fukushima

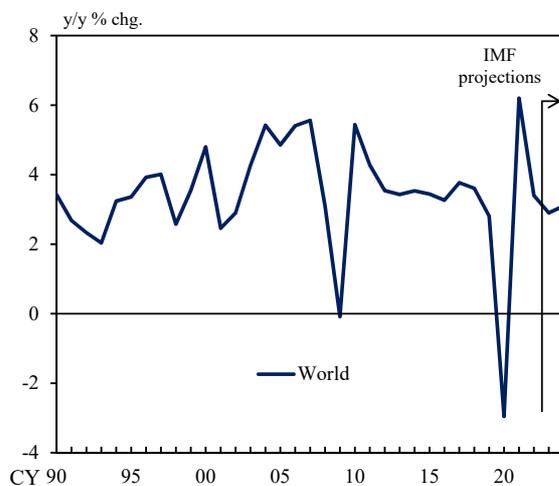
March 1, 2023

NAKAGAWA Junko
Member of the Policy Board
Bank of Japan

Chart 1

Overseas Economies

World Economic Outlook



Source: IMF.

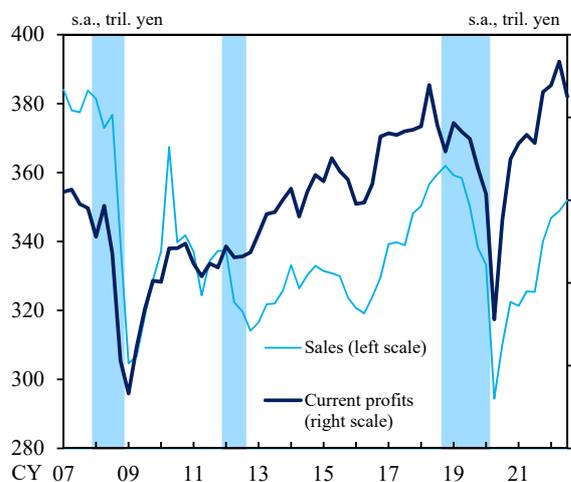
Global PMI



Note: Figures for manufacturing are the J.P.Morgan Global Manufacturing PMI. Figures for services are the J.P.Morgan Global Services Business Activity Index.
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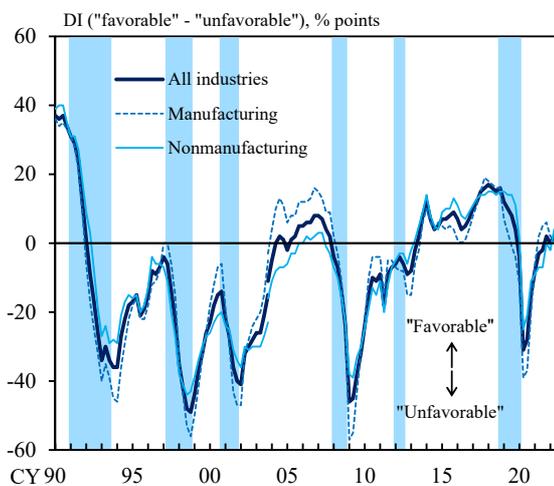
Corporate Sector in Japan

Corporate Profits



Notes: 1. Based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*. Excluding "finance and insurance."
 2. Figures from 2009/Q2 onward exclude pure holding companies.
 3. Shaded areas denote recession periods.
 Source: Ministry of Finance.

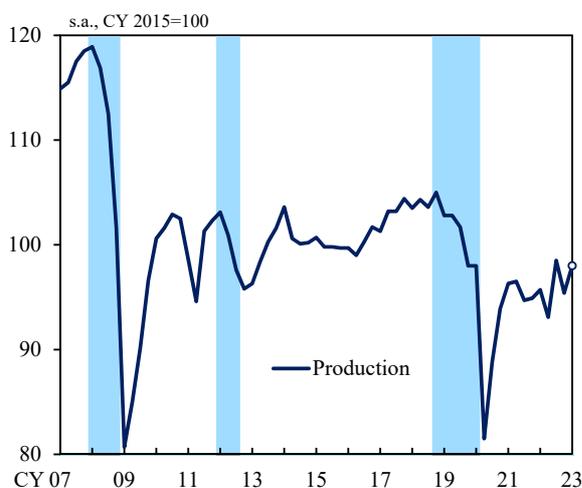
Business Conditions



Notes: 1. Based on the *Tankan*. All enterprises. There is a discontinuity in the data for December 2003 due to a change in the survey framework.
 2. Shaded areas denote recession periods.
 Source: Bank of Japan.

Corporate Sector in Japan

Industrial Production



Notes: 1. Shaded areas denote recession periods.
 2. The figure denoted by the circle to the right is calculated using projections by the Ministry of Economy, Trade and Industry for January and February 2023.
 Source: Ministry of Economy, Trade and Industry.

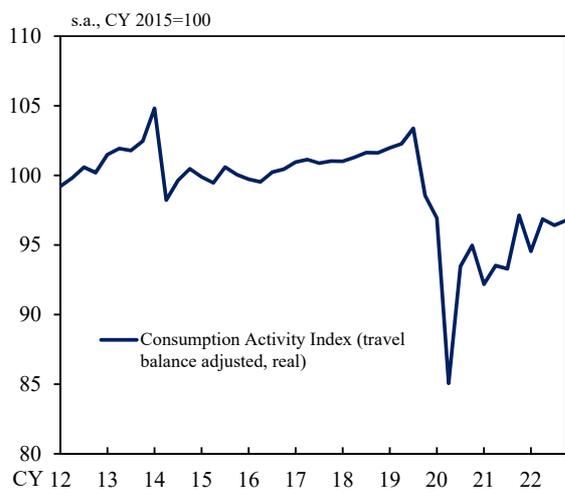
Real Exports



Notes: 1. Shaded areas denote recession periods.
 2. Based on Bank staff calculations. The figure for 2023/Q1 is that for January.
 Sources: Ministry of Finance; Bank of Japan.

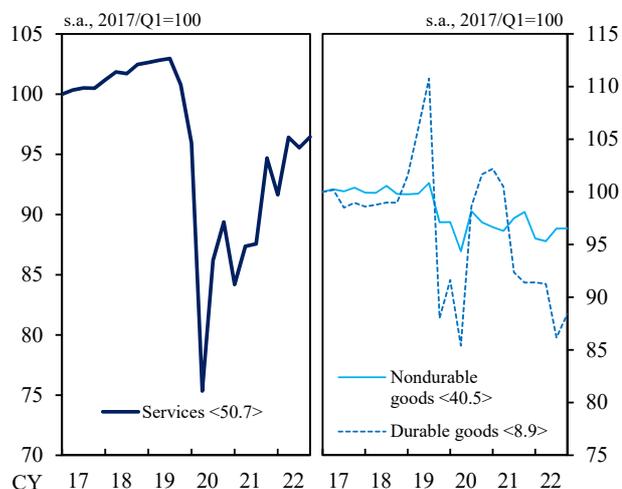
Household Sector in Japan

Private Consumption



Note: Figures for the Consumption Activity Index (CAI) are based on Bank staff calculations. The CAI figures (travel balance adjusted) exclude inbound tourism consumption and include outbound tourism consumption.
Source: Bank of Japan.

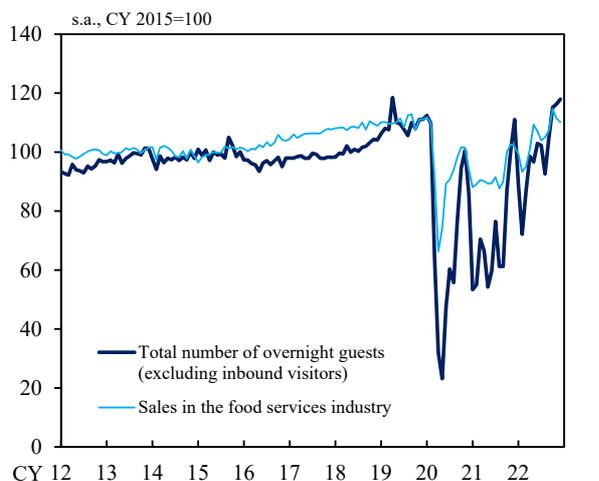
Consumption Activity Index (CAI, Real)



Notes: 1. Based on Bank staff calculations. Figures in angle brackets show the weights in the CAI.
2. Nondurable goods include goods classified as semi-durable goods in the SNA.
Sources: Bank of Japan, etc.

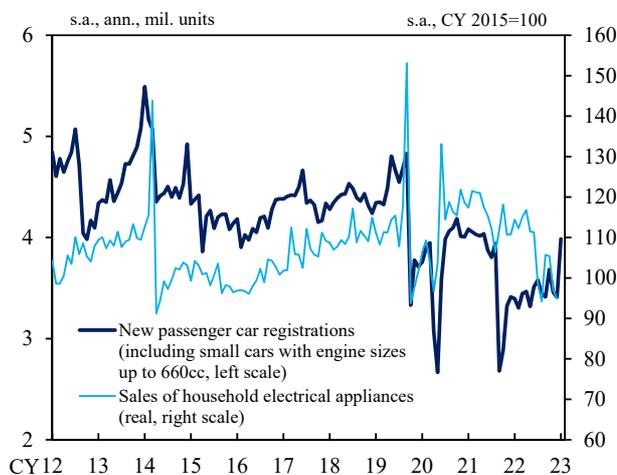
Household Sector in Japan

Consumption of Services



Sources: Japan Foodservice Association, *Market Trend Survey of the Food Services Industry*; Japan Tourism Agency.

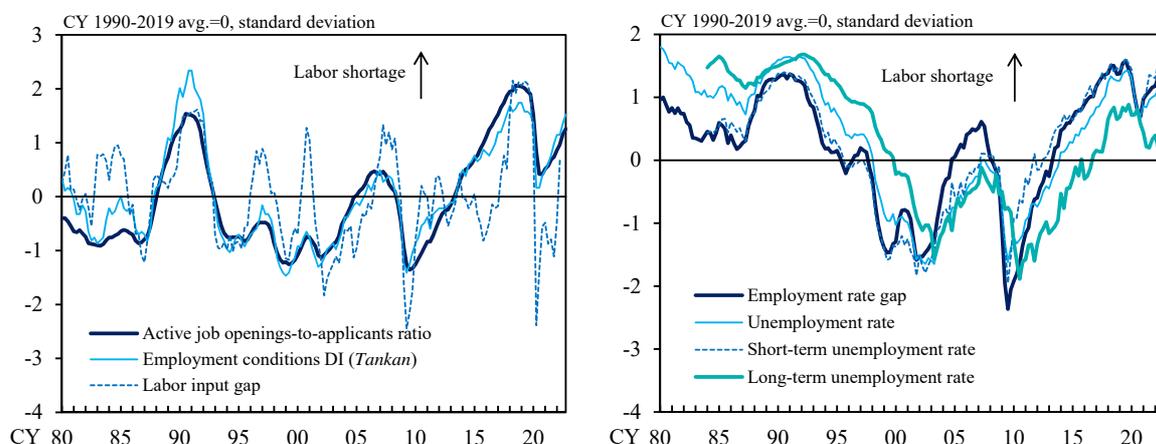
Consumption of Durable Goods



Note: Figures for real sales of household electrical appliances are based on Bank staff calculations using the retail sales index of machinery and equipment in the *Current Survey of Commerce* and the price index of related items in the CPI.
Sources: Japan Automobile Dealers Association; Japan Light Motor Vehicle and Motorcycle Association; Ministry of Economy, Trade and Industry; Ministry of Internal Affairs and Communications.

Employment and Income Situation in Japan

Various Measures of Labor Market Conditions

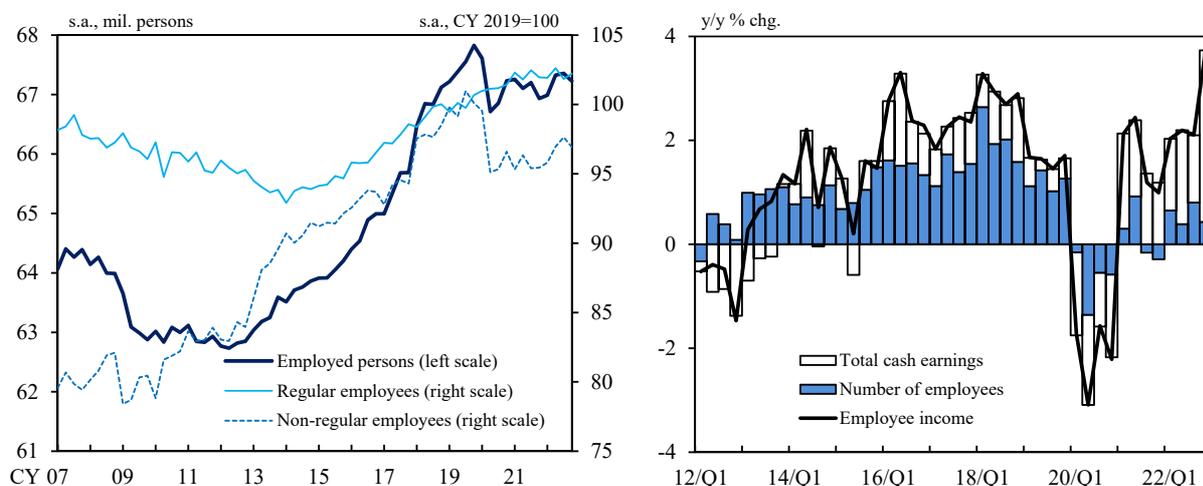


Notes: 1. Figures for each measure of labor market conditions are normalized by the standard deviation from 1990 to 2019.
 2. Figures for the active job openings-to-applicants ratio and the unemployment rate for 2022/Q4 are October-November averages.
 3. The labor input gap and the employment rate gap are Bank staff estimates.
 4. Figures for the short- and long-term unemployment rates up through 2001 are on a semiannual or annual basis.
 Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications; Bank of Japan, etc.

Employment and Income Situation in Japan

Number of Employed Persons

Employee Income



Notes: Figures for regular employees and non-regular employees prior to 2013 are based on the "detailed tabulation" in the *Labour Force Survey*.
 Source: Ministry of Internal Affairs and Communications.

Notes: 1. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. The figure for 2022/Q4 is that for December.
 2. Employee income = Total cash earnings (*Monthly Labour Survey*) × Number of employees (*Labour Force Survey*)
 3. Figures from 2016/Q1 onward are based on continuing observations following the sample revisions of the *Monthly Labour Survey*.
 Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

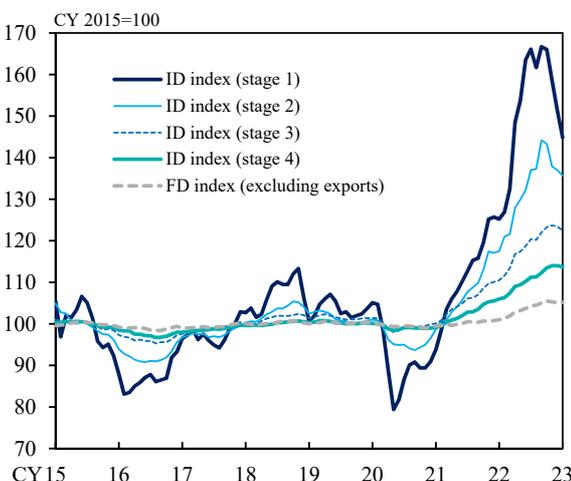
Producer Prices

Goods and Services Prices



Note: Figures exclude the effects of the consumption tax hike.
Source: Bank of Japan.

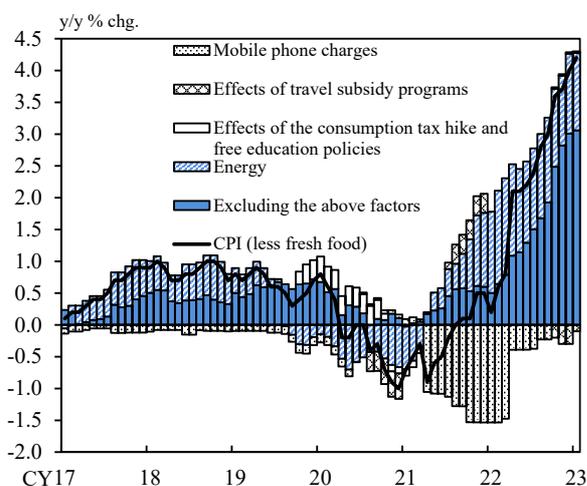
Final Demand-Intermediate Demand (FD-ID) Price Indexes (All Commodities)



Note: The indexes divide demand into the final demand stage and four stages of intermediate demand based on the Input-Output Tables for Japan. Goods and services prices are then aggregated according to the stage to which they belong to compile the FD index and the ID indexes for stages 1 to 4, ranging from the upstream to downstream stages of the production process.
Source: Bank of Japan.

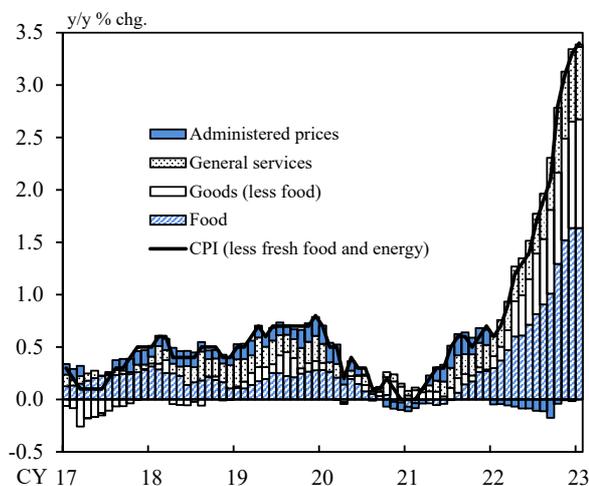
Consumer Prices

CPI (Less Fresh Food)



Notes: 1. Figures for "energy" consist of those for petroleum products, electricity, as well as manufactured and piped gas charges.
2. Figures for the "effects of the consumption tax hike and free education policies" from April 2020 onward are Bank staff estimates and include the effects of measures such as free higher education introduced in April 2020.
Source: Ministry of Internal Affairs and Communications.

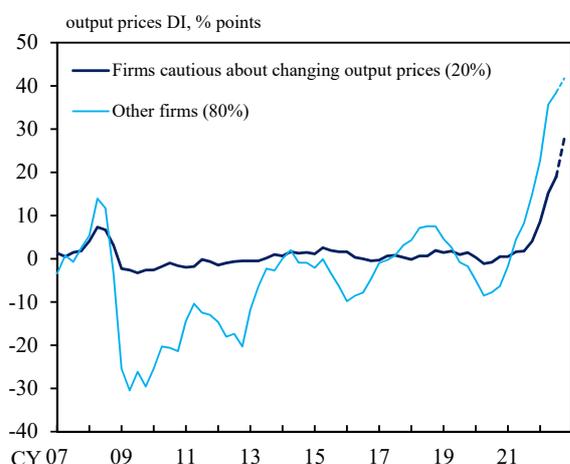
CPI (Excluding Temporary Factors)



Notes: 1. "Food" consists of "food products" and "agricultural, aquatic, and livestock products."
2. "Administered prices" excludes energy prices and consists of public services and water charges.
3. The CPI figures are Bank staff estimates and exclude the effects of the consumption tax hike, free education policies, travel subsidy programs, and mobile phone charges.
Source: Ministry of Internal Affairs and Communications.

Consumer Prices

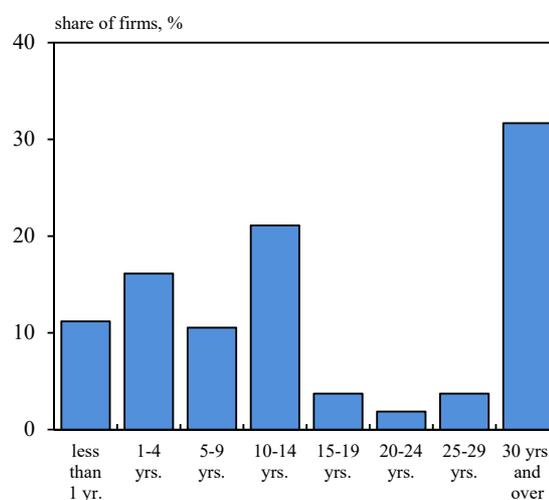
Change in Firms' Price-Setting Stance



Note: Figures are for all industries and enterprises in the *Tankan* survey. Figures for "firms cautious about changing output prices" are for firms that replied that their output prices were "unchanged" for at least about 95 percent of the period from 1991 to 2019. The dotted lines represent forecasts from the September 2022 survey.

Source: Ikeda, S. et al., "Firms' Recent Price-Setting Stance: Evidence from the *Tankan*," *Bank of Japan Review Series*, no. 23-E-2 (February 2023), https://www.boj.or.jp/en/research/wps_rev/rev_2023/data/rev23e02.pdf.

Number of Years between the Latest and Previous Price Rises

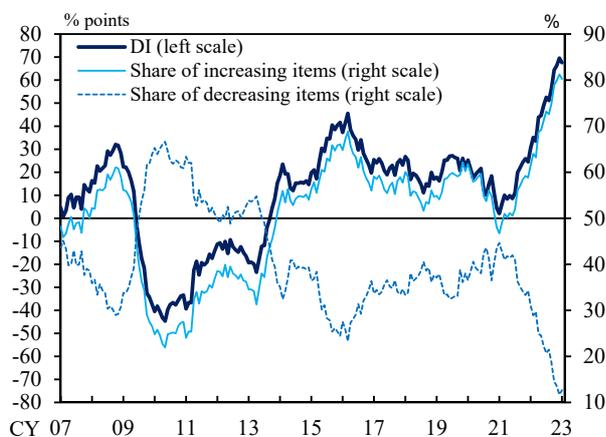


Note: The panel shows the distribution of firms that responded that they had raised their output prices since the September 2021 *Tankan* survey in terms of the number of years that had passed until the first price rise since that survey from the previous price rise. Firms are selected on the basis of being "cautious about changing output prices," having replied that their output prices were "unchanged" for at least about 95 percent of the period from 1991 to 2019.

Source: Ikeda, S. et al., "Firms' Recent Price-Setting Stance: Evidence from the *Tankan*," *Bank of Japan Review Series*, no. 23-E-2 (February 2023), https://www.boj.or.jp/en/research/wps_rev/rev_2023/data/rev23e02.pdf.

Consumer Prices

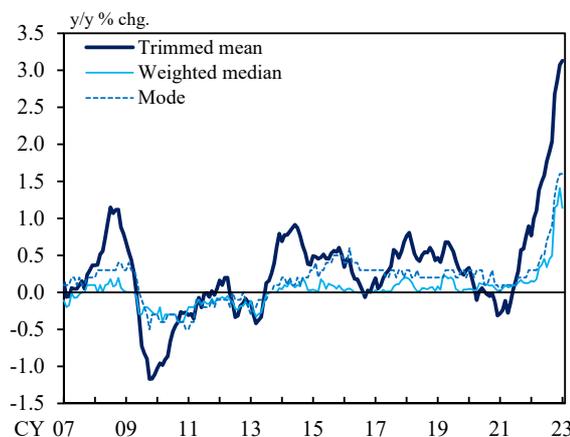
DI of Price Changes



Note: The diffusion index (DI) is defined as the share of increasing items minus the share of decreasing items. The share of increasing/decreasing items is the share of items for which price indices increased/decreased from a year earlier. Based on Bank staff calculations using the CPI (less fresh food) excluding the effects of the consumption tax hikes, free education policies, and travel subsidy programs. The CPI figures from April 2020 onward are Bank staff estimates and exclude the effects of measures such as free higher education introduced in April 2020.

Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

Measures of Core Inflation



Note: All figures are based on Bank staff calculations using the CPI excluding the effects of the consumption tax hikes, free education policies, and travel subsidy programs. The CPI figures from April 2020 onward are Bank staff estimates and exclude the effects of measures such as free higher education introduced in April 2020.

Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

Outlook for Economic Activity and Prices (as of January 2023)

y/y % chg.

	Real GDP	CPI (all items less fresh food)	(Reference) CPI (all items less fresh food and energy)
FY2022	+1.9 to +2.0 [+1.9]	+3.0 to +3.0 [+3.0]	+2.1 to +2.1 [+2.1]
Forecasts made in Oct. 2022	+1.8 to +2.1 [+2.0]	+2.8 to +2.9 [+2.9]	+1.8 to +1.9 [+1.8]
FY2023	+1.5 to +1.9 [+1.7]	+1.6 to +1.8 [+1.6]	+1.7 to +1.9 [+1.8]
Forecasts made in Oct. 2022	+1.5 to +2.0 [+1.9]	+1.5 to +1.8 [+1.6]	+1.5 to +1.8 [+1.6]
FY2024	+0.9 to +1.3 [+1.1]	+1.8 to +1.9 [+1.8]	+1.5 to +1.8 [+1.6]
Forecasts made in Oct. 2022	+1.3 to +1.6 [+1.5]	+1.5 to +1.9 [+1.6]	+1.5 to +1.8 [+1.6]

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

Modification of the Conduct of Yield Curve Control (YCC)

Impact of Increased Volatility in Overseas Markets

Deterioration in Japan's bond market functioning

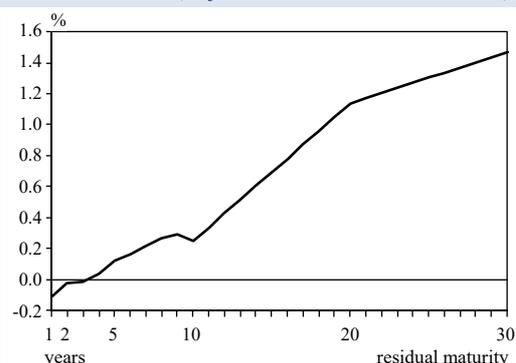
Relative relationships among interest rates of bonds with different maturities

Arbitrage relationships between spot and futures markets

Possibility of a negative impact on financial conditions

Yields on Japanese government bonds (JGBs) are reference rates for corporate bond yields, bank lending rates, and other funding rates.

JGB Yield Curve (Before the December 2022 MPM)



Source: Bloomberg.

Measures Decided by the Bank of Japan

Conduct of YCC

Encourage a smoother formation of the entire yield curve

Significant increase in the amount of JGB purchases: from 7.3 trillion yen per month to about 9 trillion yen per month

Expansion of the range of 10-year JGB yield fluctuations from the target level: from between around $\pm 0.25\%$ pts to between around $\pm 0.5\%$ pts

Nimble responses for each maturity:

- Offer to purchase 10-year JGBs at 0.5% every business day through fixed-rate purchase operations
- Make nimble responses for each maturity by increasing the amount of JGB purchases even more and conducting fixed-rate purchase operations

In adjusting the amount outstanding of corporate bonds, the Bank will give due consideration to their issuance conditions.

Facilitate the transmission of monetary easing effects generated under the framework of YCC, such as through corporate financing

The Bank will aim to achieve the price stability target by **enhancing the sustainability of monetary easing.**