

Japan's Economy and Monetary Policy

Speech at a Meeting with Business Leaders in Nagoya

November 6, 2023

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Governor of the Bank of Japan

Introduction

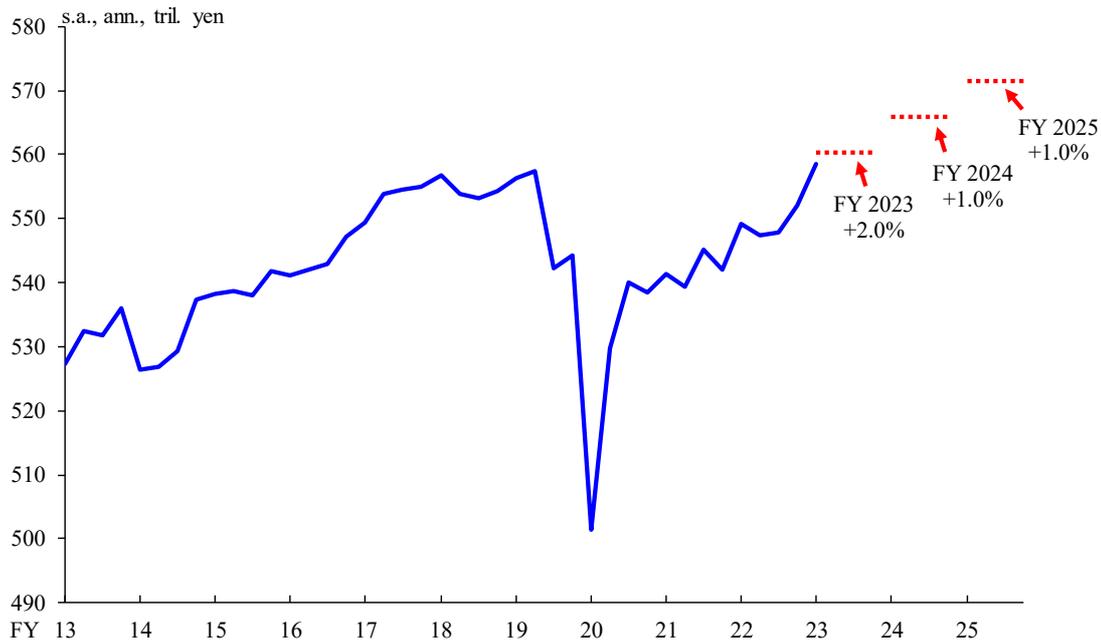
I. Economic Developments

II. Price Developments

III. The Bank's Conduct of Monetary Policy

Concluding Remarks

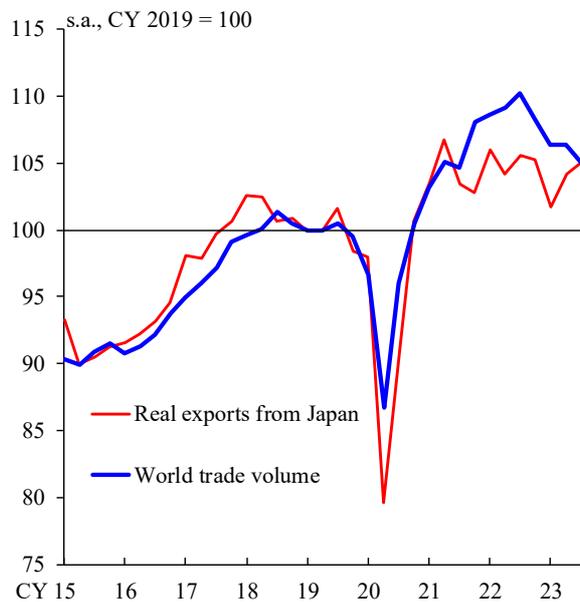
The BOJ's Forecasts for Real GDP (Oct. 2023 Outlook Report)



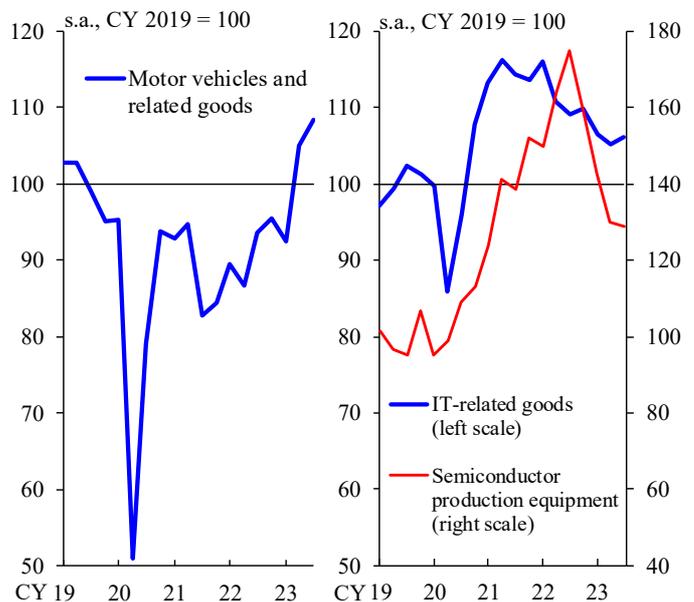
Note: The forecasts presented are the medians of the Policy Board members' forecasts. The values of real GDP for fiscal 2023 onward are calculated by multiplying the actual figure for fiscal 2022 by all successive projected growth rates for each year.
Sources: Cabinet Office; Bank of Japan.

Corporate Sector: Exports

Real Exports



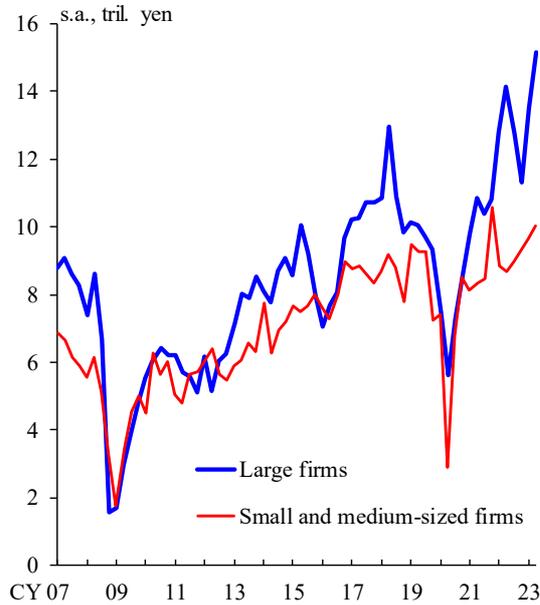
Real Exports by Item



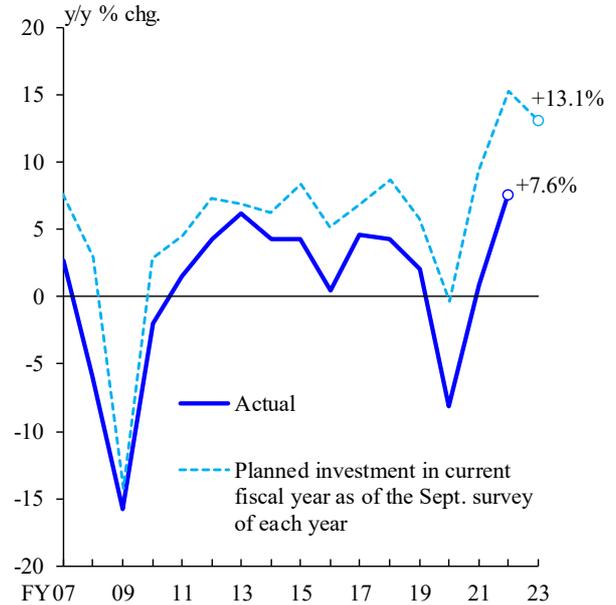
Note: In the left-hand chart, figures for the world trade volume are those for world real imports. The figure for the world trade volume for 2023/Q3 is the July-August average.
Sources: Bank of Japan; CPB Netherlands Bureau for Economic Policy Analysis; Ministry of Finance.

Corporate Sector: Profits and Business Fixed Investment

Current Profits



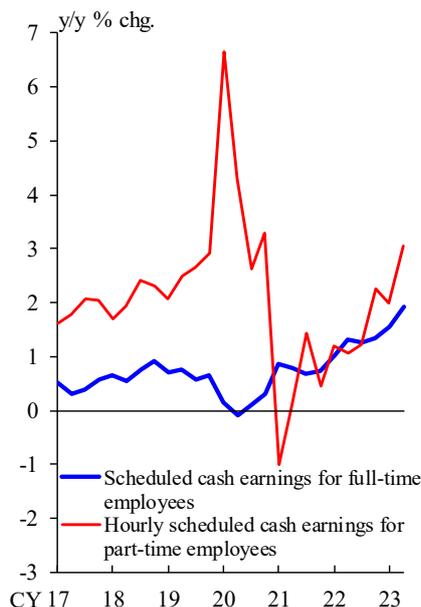
Business Fixed Investment



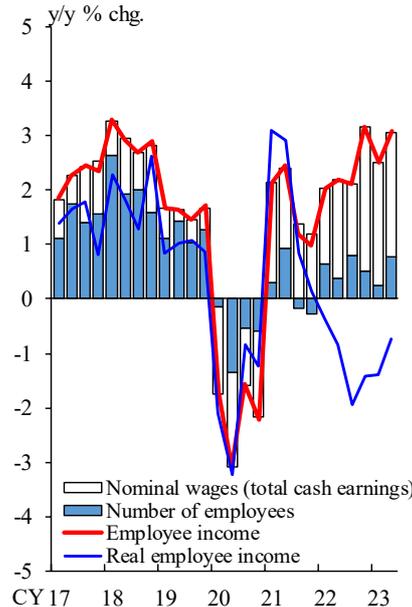
Notes: 1. In the left-hand chart, figures are based on the *Financial Statements Statistics of Corporations by Industry, Quarterly* and exclude "finance and insurance." Figures from 2009/Q2 onward exclude pure holding companies.
 2. In the right-hand chart, figures are based on the *Tankan*, including software and R&D investments and excluding land purchasing expenses. R&D investment is not included before the March 2017 survey. Figures are for all industries including financial institutions.
 Sources: Ministry of Finance; Bank of Japan.

Household Sector

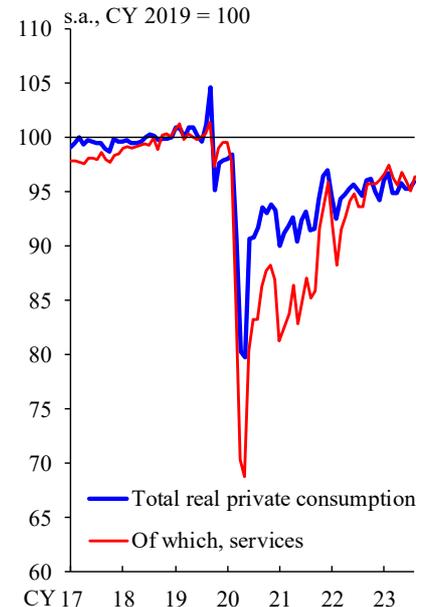
Scheduled Cash Earnings



Employee Income



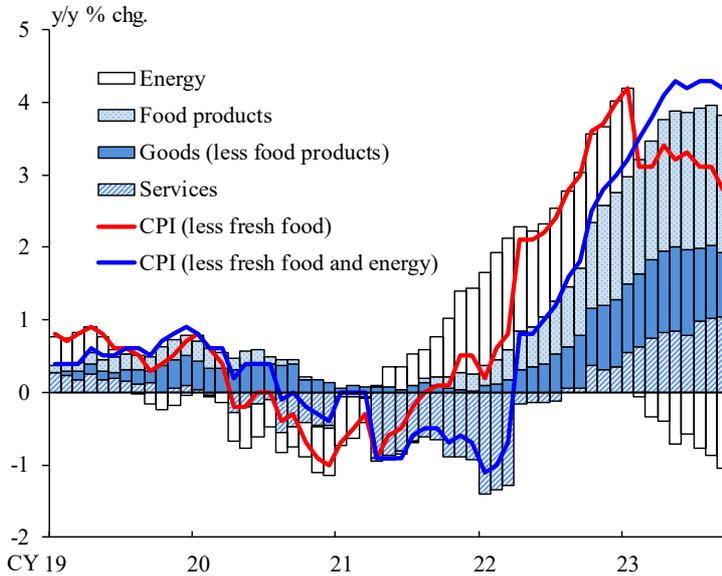
Consumption Activity Index



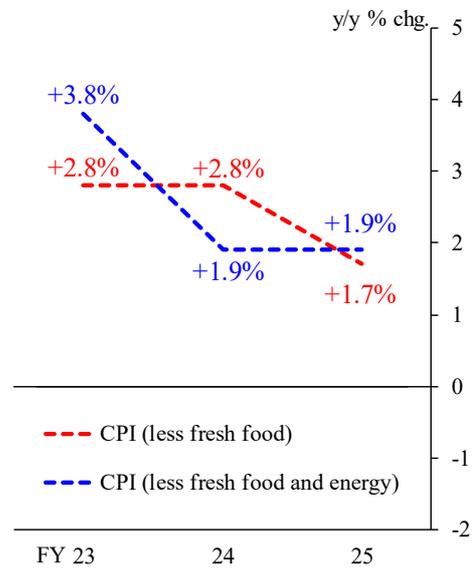
Notes: 1. In the left-hand and middle charts, Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Figures are based on continuing observations following the sample revisions of the *Monthly Labour Survey*.
 2. In the middle chart, Employee income = Total cash earnings (*Monthly Labour Survey*) × Number of employees (*Labour Force Survey*). Figures for real employee income are based on staff calculations using the CPI (less imputed rent).
 3. In the right-hand chart, figures for total real private consumption are the real Consumption Activity Index (travel balance adjusted) based on staff calculations, which exclude inbound tourism consumption and include outbound tourism consumption.
 Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications; Bank of Japan.

The BOJ's Forecasts for the CPI (Oct. 2023 Outlook Report)

Developments over Time



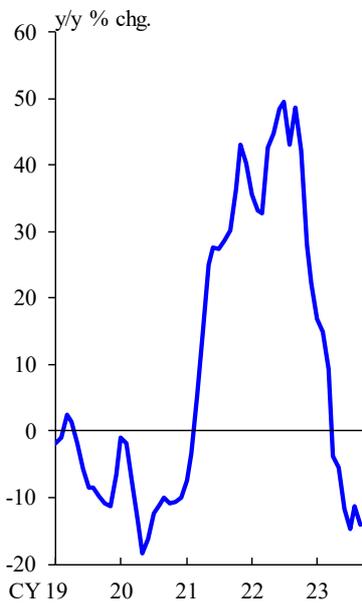
Forecasts



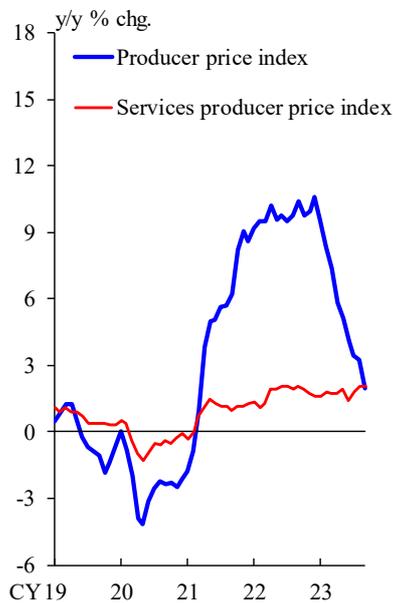
Note: In the right-hand chart, figures are the medians of the Policy Board members' forecasts.
Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

Current Situation Surrounding the First Force

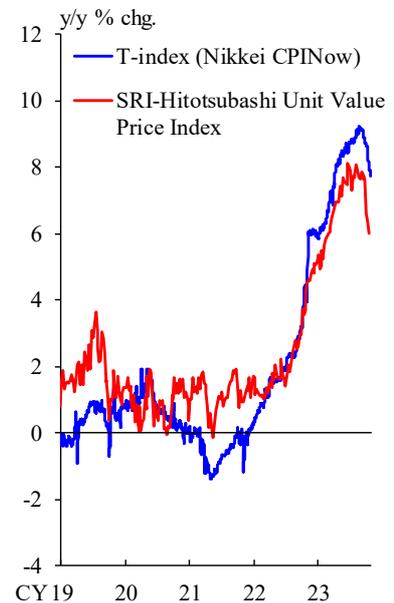
Import Prices



Producer Prices



High-Frequency Data for Consumer Prices

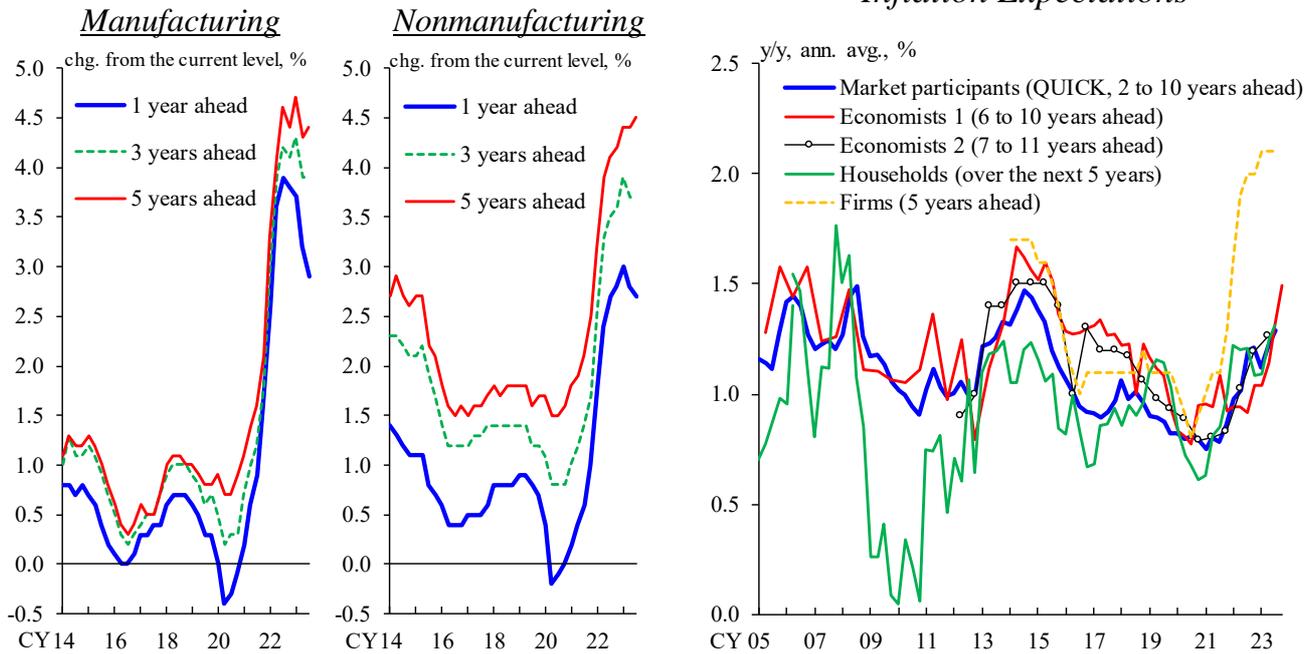


Notes: 1. In the left-hand chart, figures are the import price index (yen basis).
2. In the middle chart, figures exclude the effects of the consumption tax hike.
Sources: Bank of Japan; Nowcast Inc.; Research Center for Economic and Social Risks, Hitotsubashi University.

Current Situation Surrounding the Second Force: Changes in Corporate Behavior

Firms' Outlook for Output Prices in the Tankan

Inflation Expectations



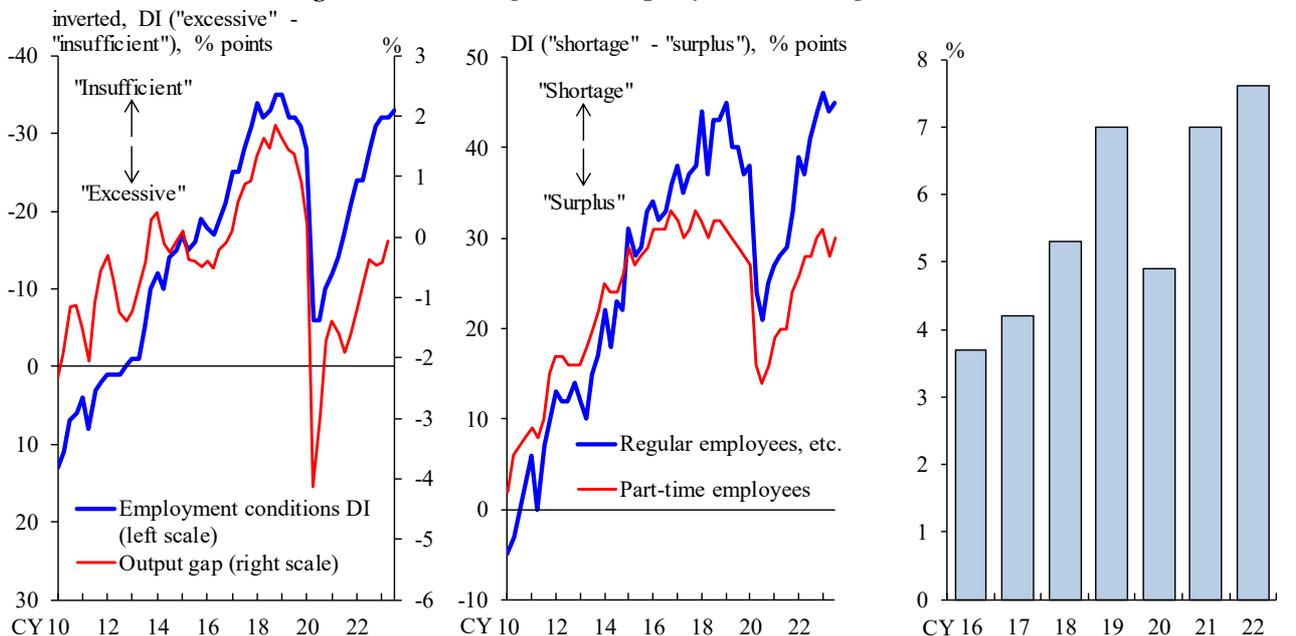
Note: In the right-hand chart, "Economists 1" shows the forecasts of economists in the *Consensus Forecasts*, while "Economists 2" shows the forecasts of forecasters surveyed for the *ESP Forecast*. Figures for households are from the *Opinion Survey on the General Public's Views and Behavior*, estimated using the modified Carlson-Parkin method for a 5-choice question. Figures for firms show the inflation outlook of enterprises for general prices (all industries and enterprises, average) in the *Tankan*.
Sources: Bank of Japan; QUICK, "QUICK Monthly Market Survey <Bonds>"; JCER, "ESP Forecast"; Consensus Economics Inc., "Consensus Forecasts."

Current Situation Surrounding the Second Force: Labor Market Conditions

Firms' Perception of Labor Shortage

Firms' Perception of Regular Employee Shortage

Job-Switching Rates among Regular Employees



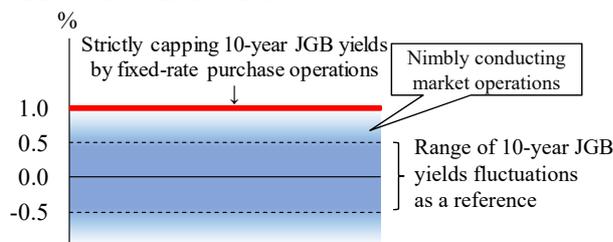
Notes: 1. In the left-hand chart, the employment conditions DI figures are based on the *Tankan*.
2. In the middle chart, figures are the DIs for firms' employment conditions in the *Survey on Labour Economy Trend*.
3. In the right-hand chart, figures are the share of regular employees in their 20s to 50s who switched jobs in the past year.
Sources: Bank of Japan; Ministry of Health, Labour and Welfare; Mynavi, "Job Change Trends Survey 2023 (2022 Results)."

III. The Bank's Conduct of Monetary Policy

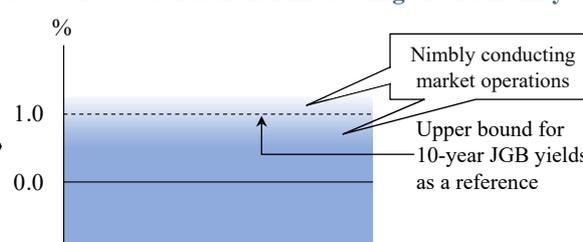
Further Increasing the Flexibility in the Conduct of Yield Curve Control (YCC)

- The Bank will patiently continue with monetary easing under Yield Curve Control (the short-term policy interest rate: -0.1%, the long-term interest rate: around 0%), aiming to support Japan's economic activity and thereby facilitate a favorable environment for wage increases.
 - Toward the end of the projection period, the Bank expects that underlying CPI inflation will increase gradually toward achieving the price stability target of 2 percent, while this increase needs to be accompanied by an intensified virtuous cycle between wages and prices.
- With extremely high uncertainties surrounding economies and financial markets at home and abroad, the Bank judges that it is appropriate to increase the flexibility in the conduct of yield curve control, so that long-term interest rates will be formed smoothly in financial markets in response to future developments.

<Previous Conduct of YCC>



<Conduct of YCC after Further Increasing the Flexibility>



<Outlook for Prices>

	Fiscal 2023		Fiscal 2024		Fiscal 2025	
		Forecasts made in July		Forecasts made in July		Forecasts made in July
CPI (all items less fresh food)	+2.8	+2.5	+2.8	+1.9	+1.7	+1.6
(Reference) CPI (all items less fresh food and energy)	+3.8	+3.2	+1.9	+1.7	+1.9	+1.8

y/y % chg.

Note: Figures indicate the medians of the Policy Board members' forecasts (point estimates).