



# Economic Activity, Prices, and Monetary Policy in Japan

*Speech at a Meeting with Local Leaders in Ehime*

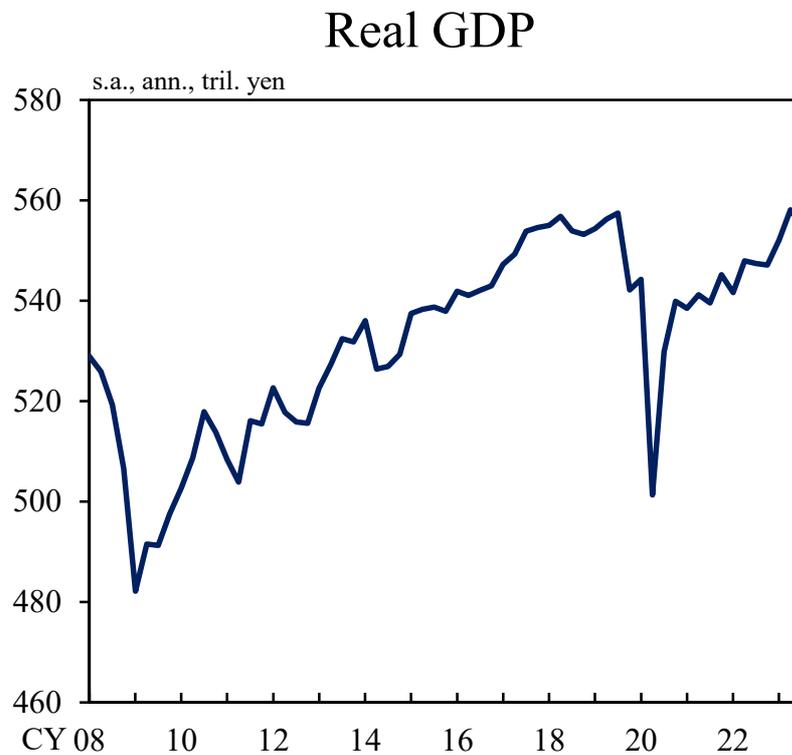
November 29, 2023

ADACHI Seiji

Member of the Policy Board

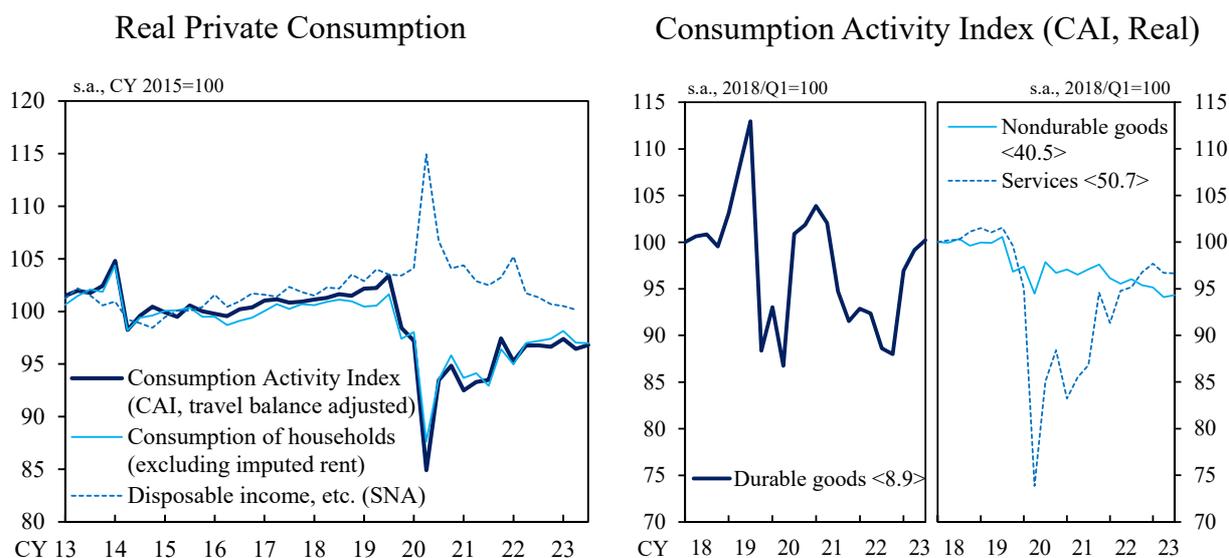
Bank of Japan

Chart 1



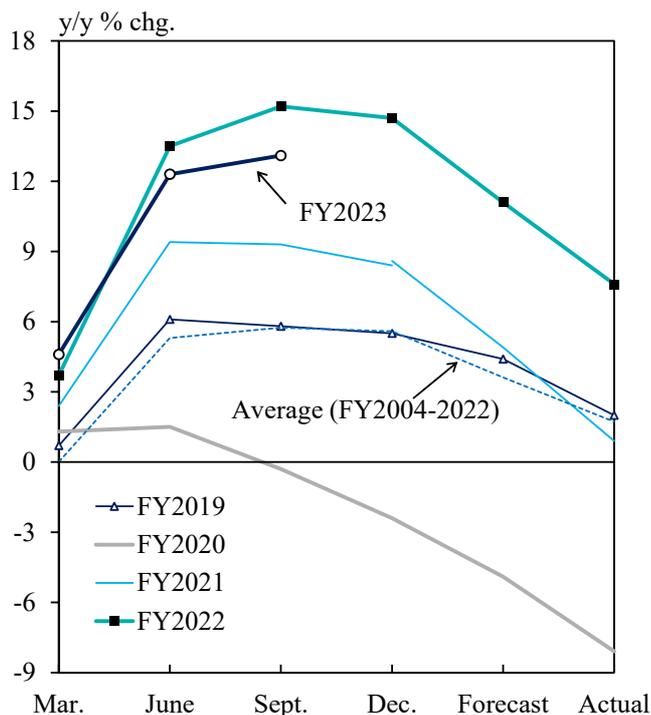
Source: Cabinet Office.

# Private Consumption



Notes: 1. In the left panel, figures for the CAI are based on Bank staff calculations. The CAI figures (travel balance adjusted) exclude inbound tourism consumption and include outbound tourism consumption.  
 2. In the left panel, "disposable income, etc." consists of disposable income and adjustment for the change in pension entitlements. Real values are obtained using the deflator of consumption of households.  
 3. In the right panel, figures are based on Bank staff calculations. Figures in angle brackets show the weights in the CAI.  
 4. In the right panel, nondurable goods include goods classified as semi-durable goods in the SNA.  
 Sources: Cabinet Office; Bank of Japan, etc.

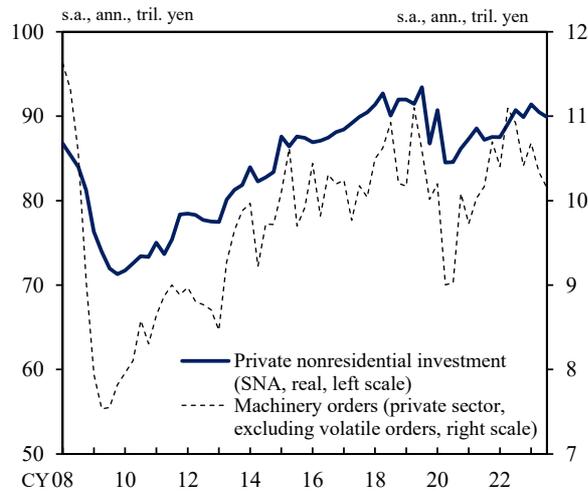
# Developments in Business Fixed Investment Plans



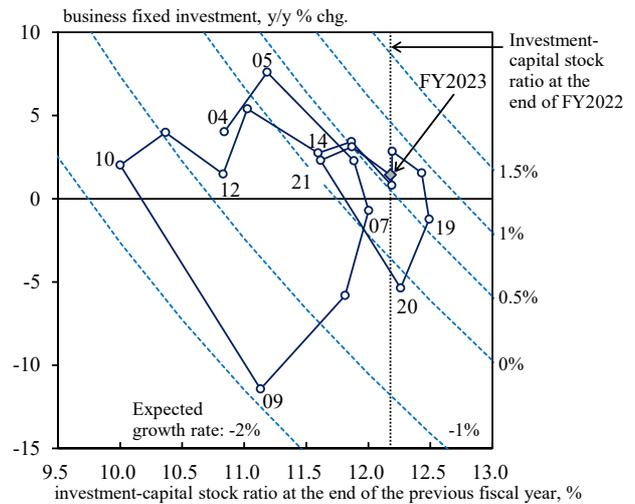
Notes: 1. Figures are based on the *Tankan* and are for all industries including financial institutions.  
 2. Figures include software and R&D investments but exclude land purchasing expenses. R&D investment is not covered as a survey item before the March 2017 survey.  
 3. There is a discontinuity in the data for December 2021 due to a change in the survey sample.  
 Source: Bank of Japan.

# Business Fixed Investment

Indicators of Business Fixed Investment



Capital Stock Cycles



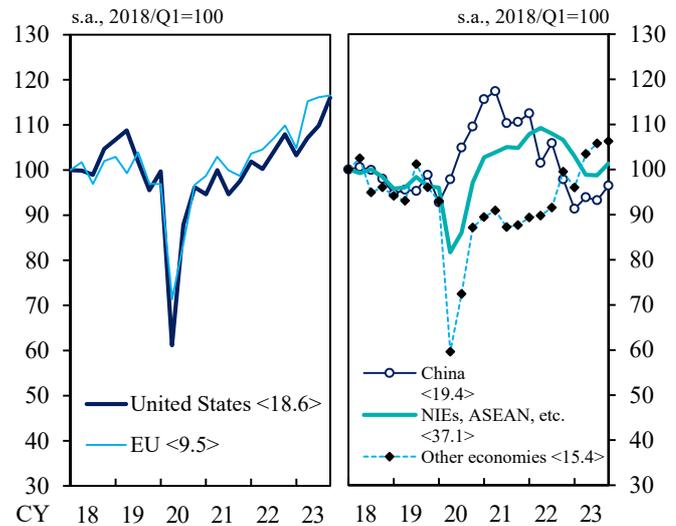
Notes: 1. In the left panel, volatile orders are orders for ships and those from electric power companies.  
 2. In the right panel, each broken line represents the combination of the rate of change in business fixed investment and the investment-capital stock ratio at a certain expected growth rate. The figure for fiscal 2023 is that for 2023/Q2.  
 Source: Cabinet Office.

# Exports

Total Real Exports

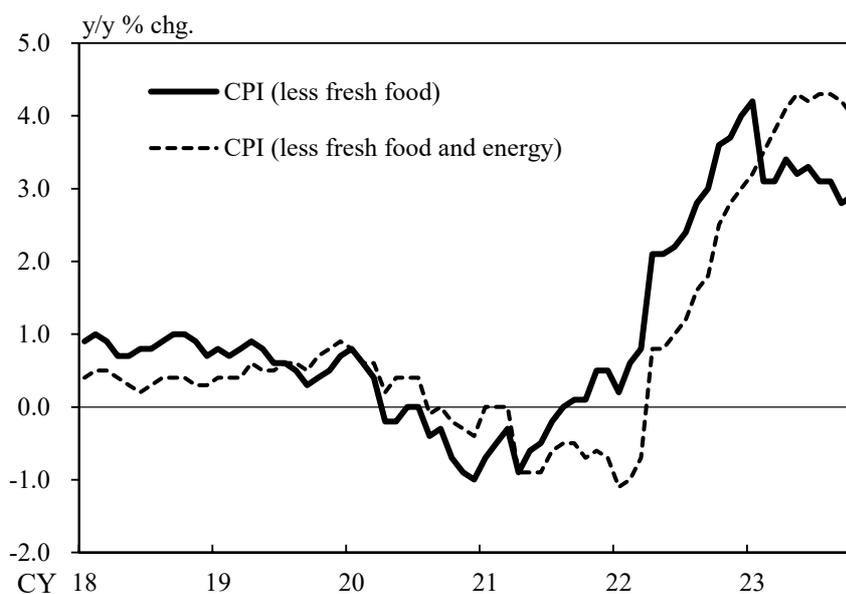


Real Exports by Region



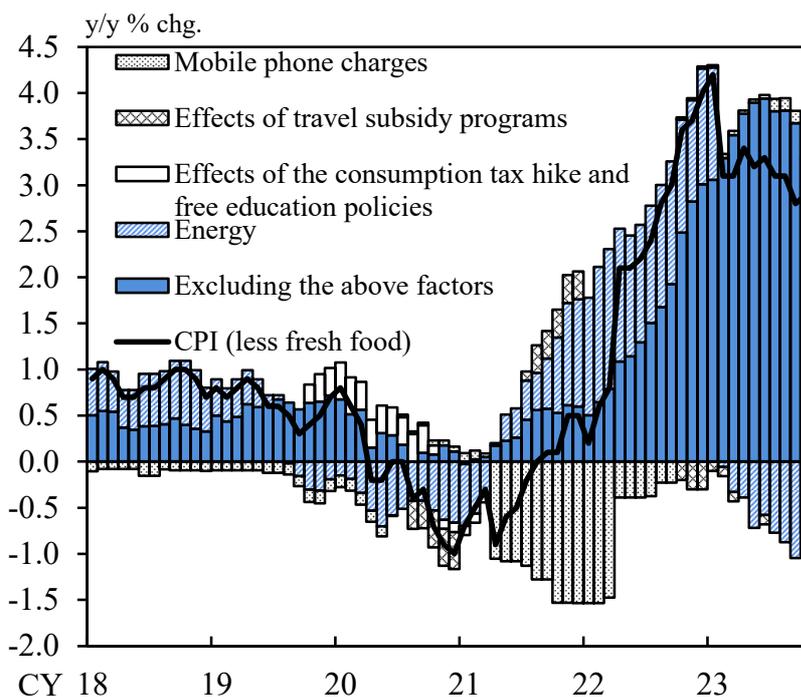
Notes: 1. Figures are based on Bank staff calculations.  
 2. Figures for 2023/Q4 are those for October.  
 3. In the right panel, figures in angle brackets show the share of each country or region in Japan's total exports in 2022. Figures for the EU exclude those for the United Kingdom for the entire period.  
 Sources: Ministry of Finance; Bank of Japan.

## Developments in the CPI



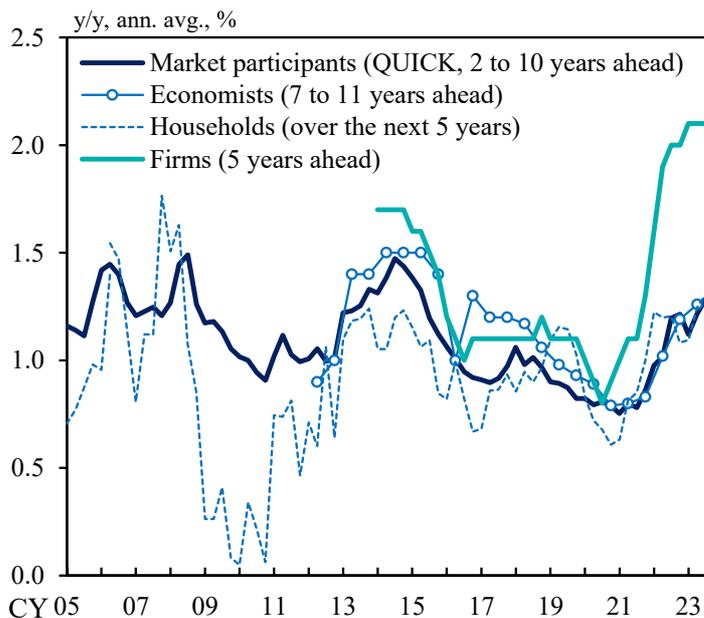
Source: Ministry of Internal Affairs and Communications.

## CPI for All Items Less Fresh Food



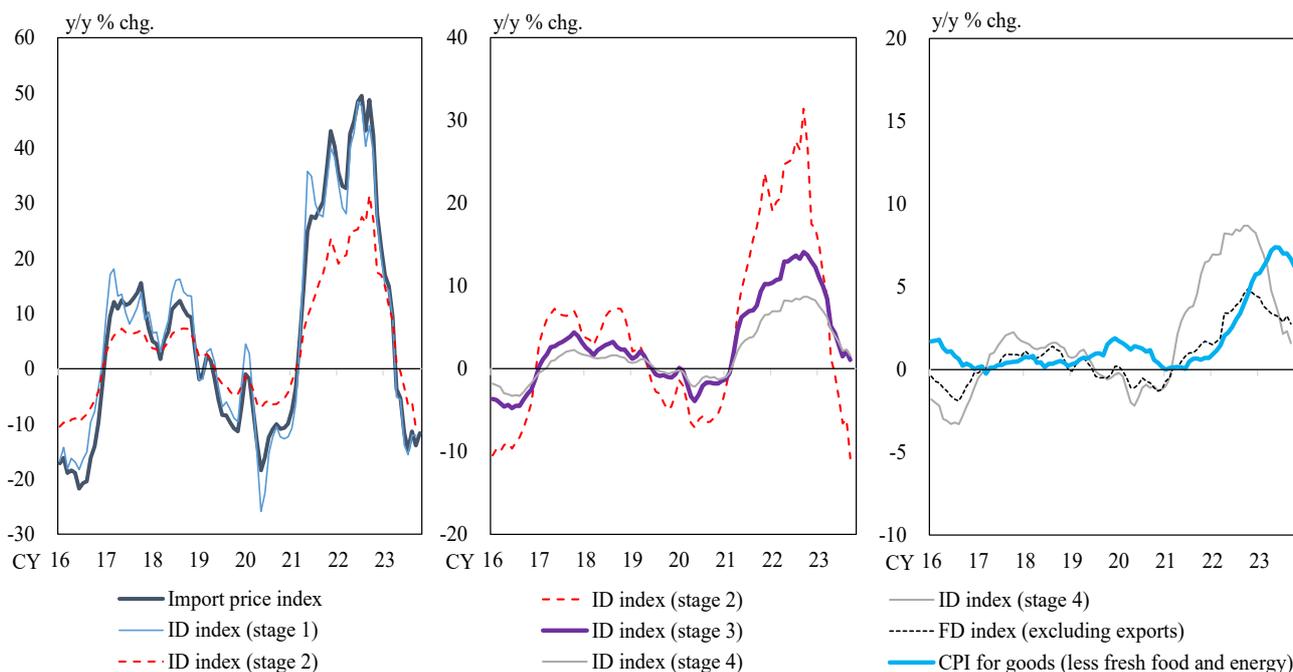
Notes: 1. Figures for "energy" consist of those for petroleum products, electricity, as well as manufactured and piped gas charges.  
 2. Figures for the "effects of the consumption tax hike and free education policies" from April 2020 onward are Bank staff estimates and include the effects of measures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

# Inflation Expectations



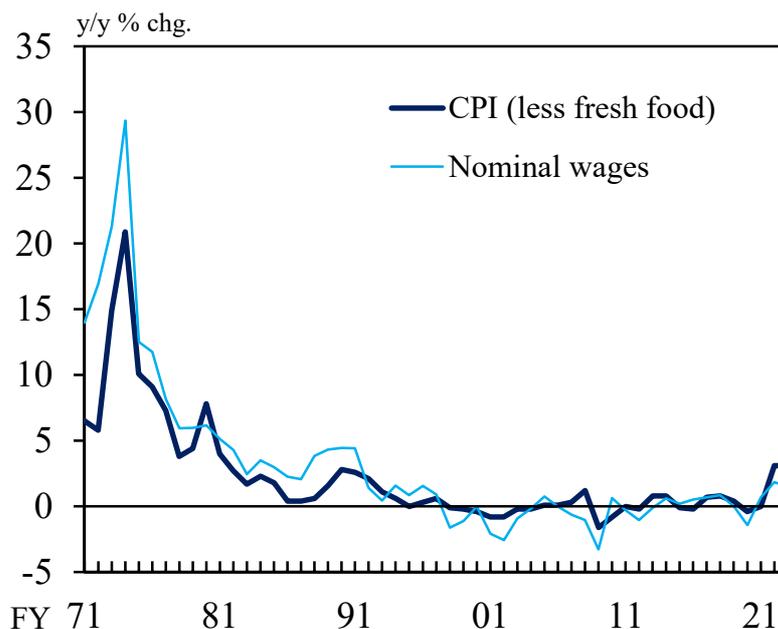
Notes: 1. Figures for economists are the forecasts of forecasters surveyed for the *ESP Forecast*.  
 2. Figures for households are from the *Opinion Survey on the General Public's Views and Behavior*, estimated using the modified Carlson-Parkin method for a 5-choice question.  
 3. Figures for firms show the inflation outlook of enterprises for general prices (all industries and enterprises, average) in the *Tankan*.  
 Sources: Japan Center for Economic Research (JCER), *ESP Forecast*; QUICK, *QUICK Monthly Market Survey (Bonds)*; Bank of Japan.

# Spillover Effects of Import Prices on the CPI for Goods



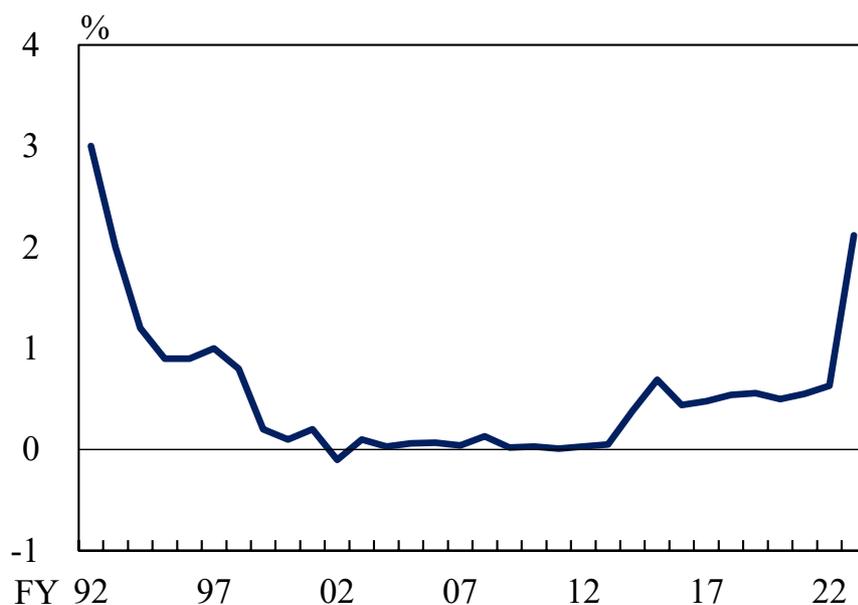
Note: The import price index is on a yen basis. The FD-ID price indexes divide demand into the final demand (FD) stage and four stages of intermediate demand (ID) based on the Input-Output Tables for Japan. Goods and services prices are then aggregated according to the stage to which they belong to compile the FD index and the ID indexes for stages 1 to 4, ranging from the upstream to downstream stages of the production process.  
 Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

## Developments in Wages and Prices



Notes: 1. The CPI figures are Bank staff estimates and exclude the effects of the consumption tax hikes, policies concerning the provision of free education, and travel subsidy programs. 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.  
 2. For fiscal 2023, the figure for the CPI (less fresh food) is the April-October average, while that for nominal wage is the April-September average.  
 Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

## Base Pay Increases

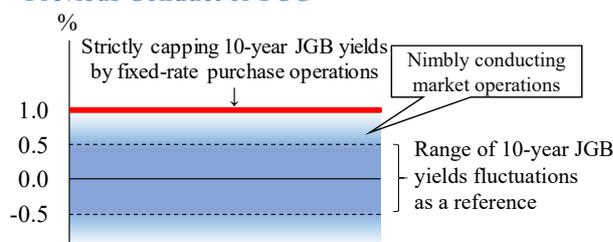


Note: Figures show actual base pay increases. Figures from fiscal 1992 to 2013 are those published by the Central Labour Relations Commission, while figures from fiscal 2014 to 2023 are those released by the Japanese Trade Union Confederation (Rengo).  
 Sources: Central Labour Relations Commission; Rengo.

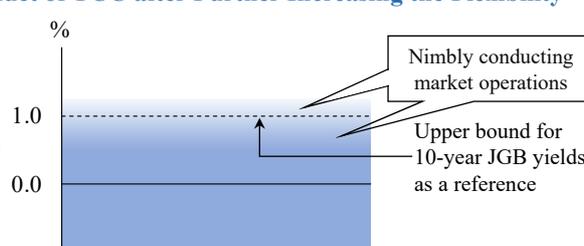
## Further Increasing the Flexibility in the Conduct of Yield Curve Control (YCC)

- 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

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