

# Japan's Economy and Monetary Policy

*Speech at a Meeting with Local Leaders in Nara*

February 8, 2024

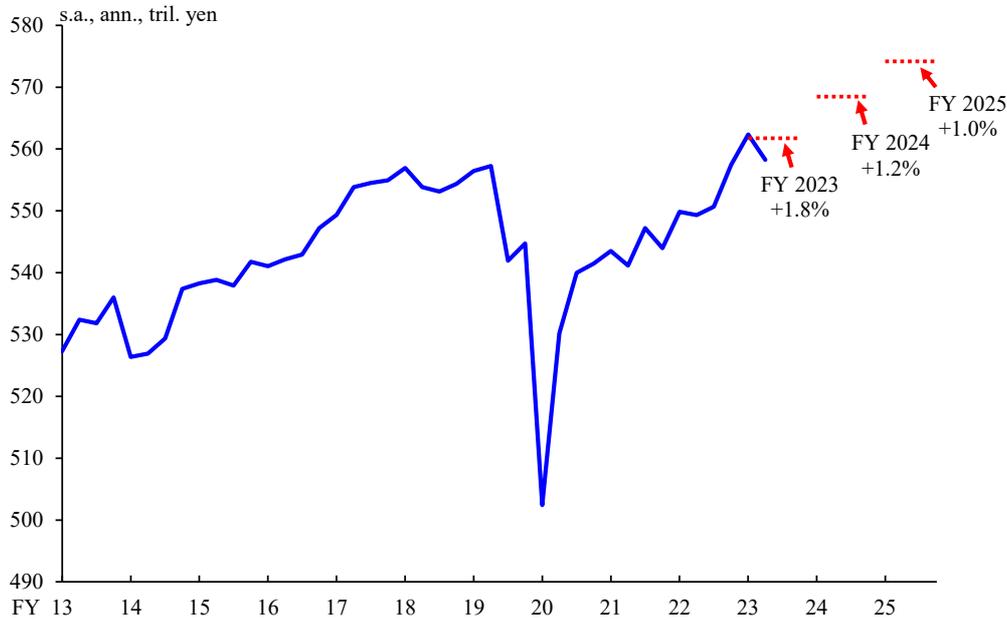
UCHIDA Shinichi

*Deputy Governor of the Bank of Japan*

## Introduction

- I. Economic Developments
- II. Wage and Price Situation
- III. The Bank's Conduct of Monetary Policy
- IV. A Turning Point for Japan's Economy
- V. Recent and Future Economic Activity in Nara Prefecture

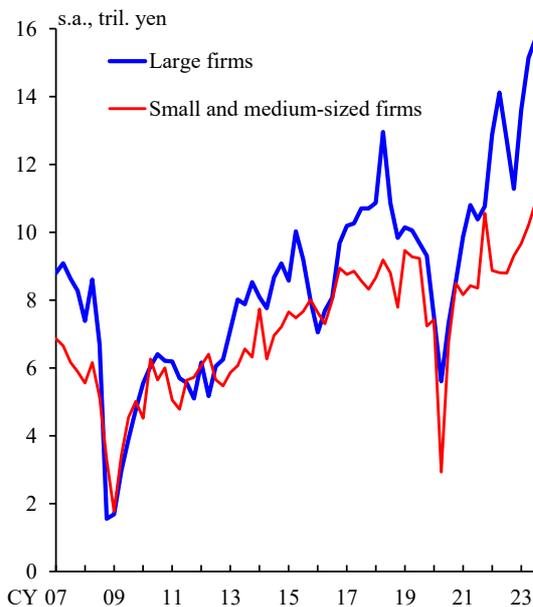
## The BOJ's Forecasts for Real GDP (Jan. 2024 Outlook Report)



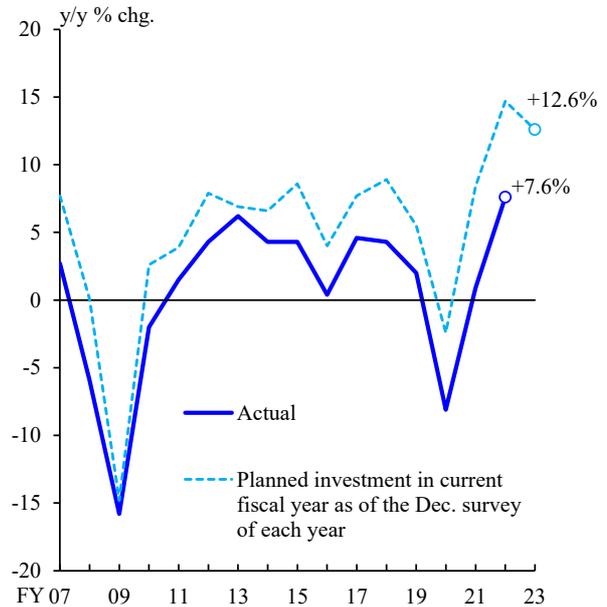
Note: The forecasts presented are the medians of the Policy Board members' forecasts. The values of real GDP for fiscal 2023 onward are calculated by multiplying the actual figure for fiscal 2022 by all successive projected growth rates for each year.  
Sources: Cabinet Office; Bank of Japan.

## Corporate Sector: Profits and Business Fixed Investment

*Current Profits*



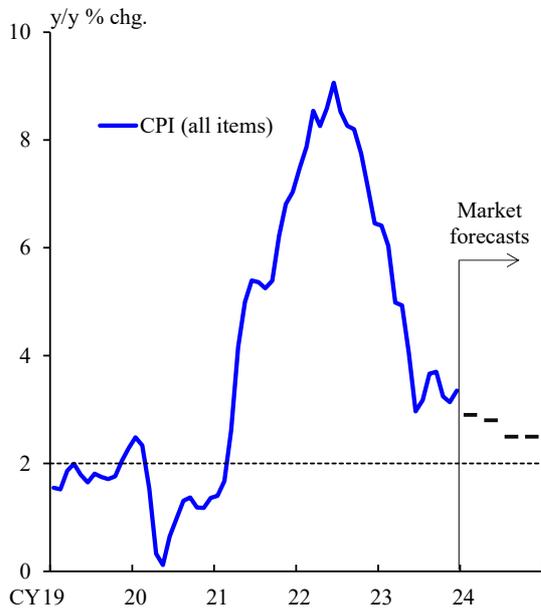
*Business Fixed Investment*



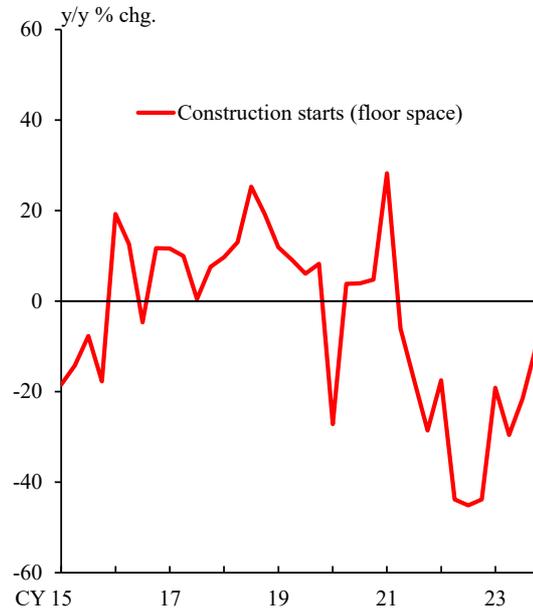
Notes: 1. In the left-hand chart, figures are based on the *Financial Statements Statistics of Corporations by Industry, Quarterly* and exclude "finance and insurance." Figures from 2009/Q2 onward exclude pure holding companies.  
2. In the right-hand chart, figures are based on the *Tankan*, including 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.

## Overseas Economies

*Consumer Prices in the United States*



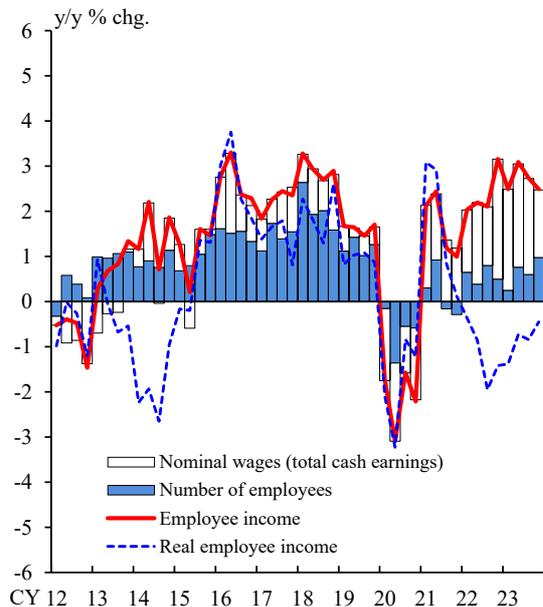
*Real Estate Market in China*



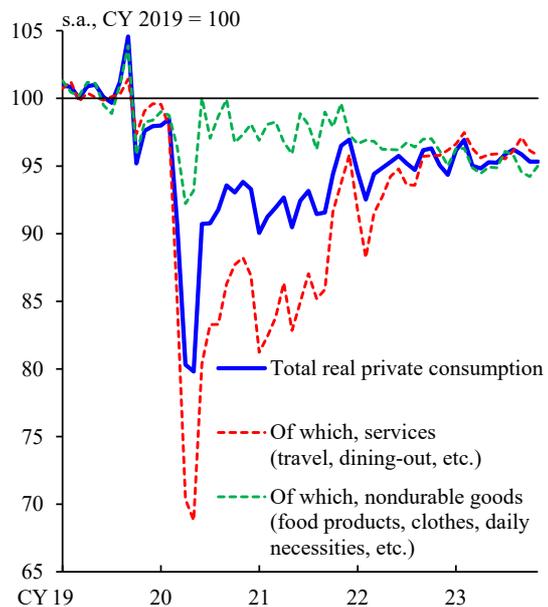
Sources: Bloomberg; Haver; CEIC.

## Household Sector: Employee Income and Private Consumption

*Employee Income*



*Private Consumption*

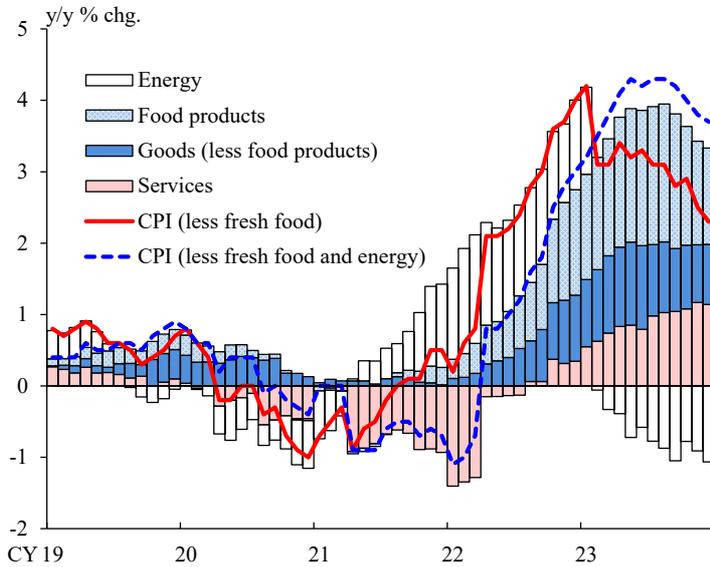


Notes: 1. In the left-hand chart, Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Employee income = Total cash earnings (*Monthly Labour Survey*) × Number of employees (*Labour Force Survey*). Figures from 2016/Q1 onward are based on continuing observations following the sample revisions of the *Monthly Labour Survey*. Those for real employee income are based on staff calculations using the CPI (less imputed rent). Figures for 2023/Q4 are those for December.  
 2. 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.

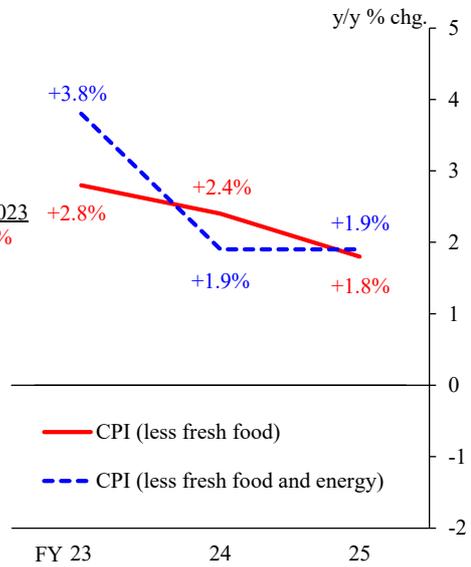
Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications; Bank of Japan.

## The BOJ's Forecasts for the CPI (Jan. 2024 Outlook Report)

*Developments over Time*



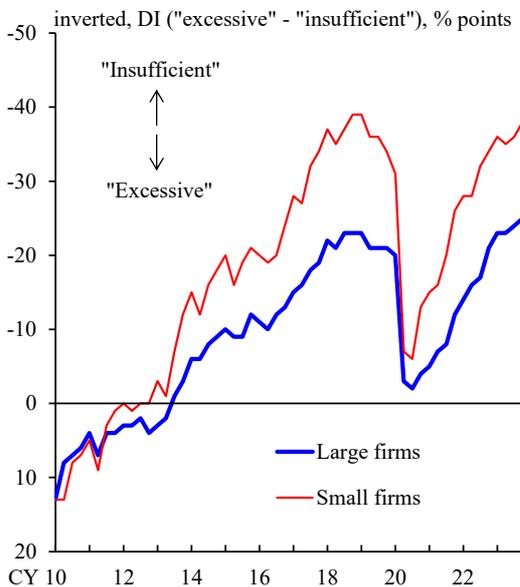
*Forecasts*



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.

## Spillovers from Prices to Wages

*Firms' Perception of Labor Shortage*



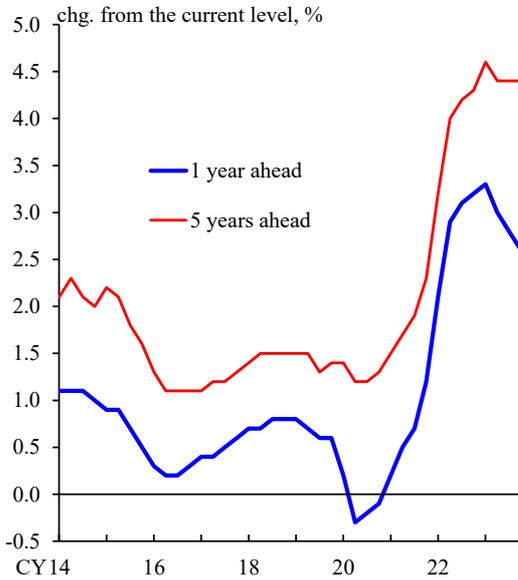
*CPI Inflation*

	y/y chg.	
	All items	All items less fresh food
CY 2022	2.5%	2.3%
CY 2023	3.2%	3.1%

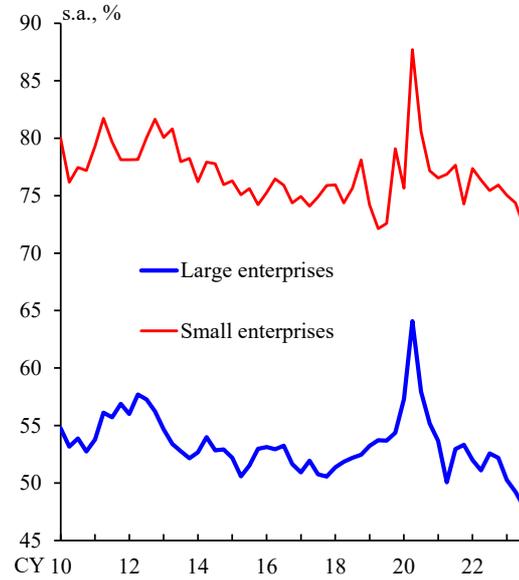
Note: In the left-hand chart, figures are the employment conditions DI in the *Tankan*.  
Sources: Bank of Japan; Ministry of Internal Affairs and Communications.

## Spillovers from Wages to Prices

*Firms' Outlook for Output Prices in the Tankan*

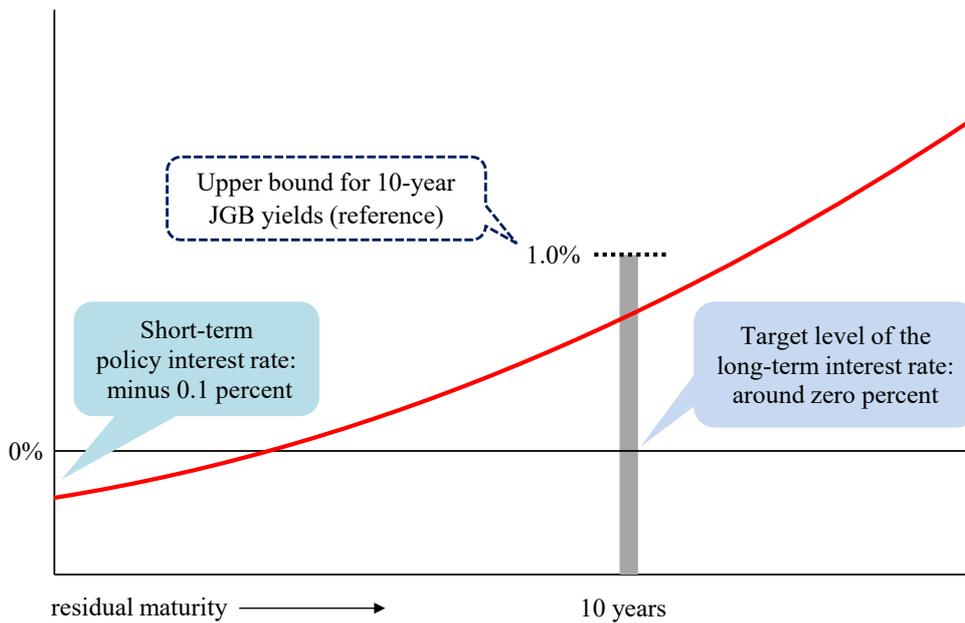


*Labor Share*

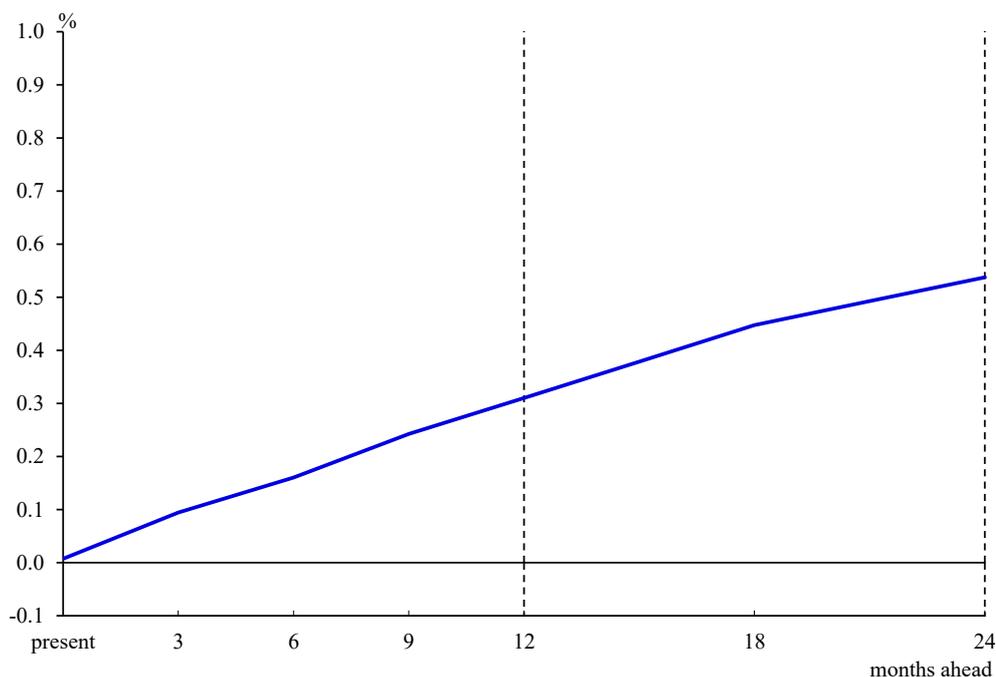


Note: In the right-hand chart, figures are based on the *Financial Statements Statistics of Corporations by Industry, Quarterly* and exclude "finance and insurance" and pure holding companies. Sources: Bank of Japan; Ministry of Finance.

## The BOJ's Monetary Policy



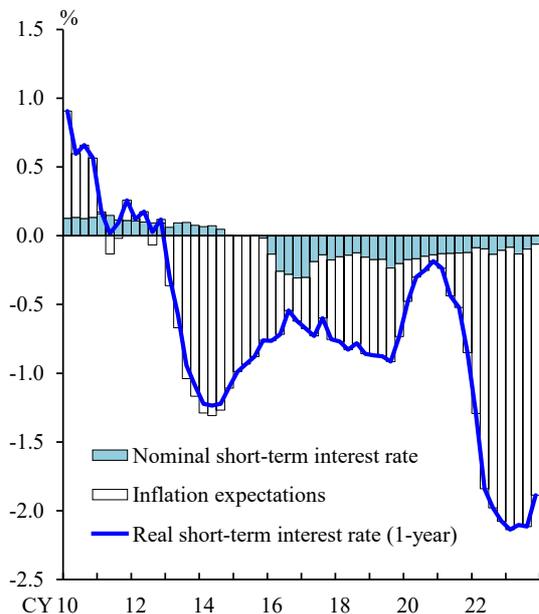
## Market Expectations for the BOJ's Policy Interest Rate



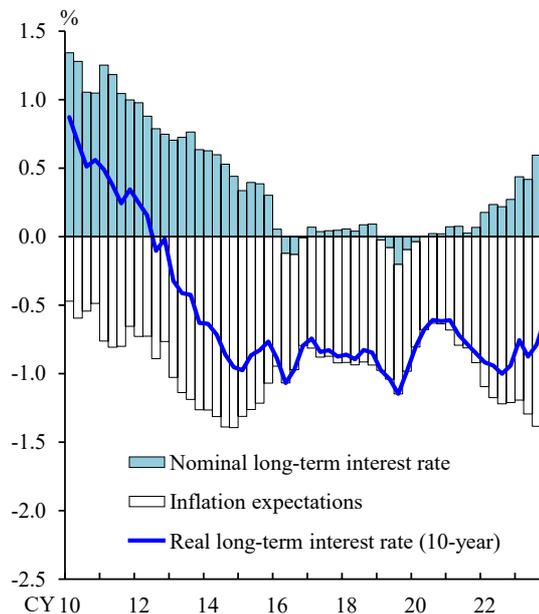
Note: The figure for the present is the 3-month yen OIS rate. Figures for 3, 6, and 9 months ahead are 3-month forward rates, those for 12 and 18 months ahead are 6-month forward rates, and that for 24 months ahead is a 12-month forward rate, all calculated from the yen OIS rates. The figures are those as of February 5, 2024.  
 Source: Bloomberg.

## Real Interest Rates

*Real Short-Term Interest Rate (1-Year)*

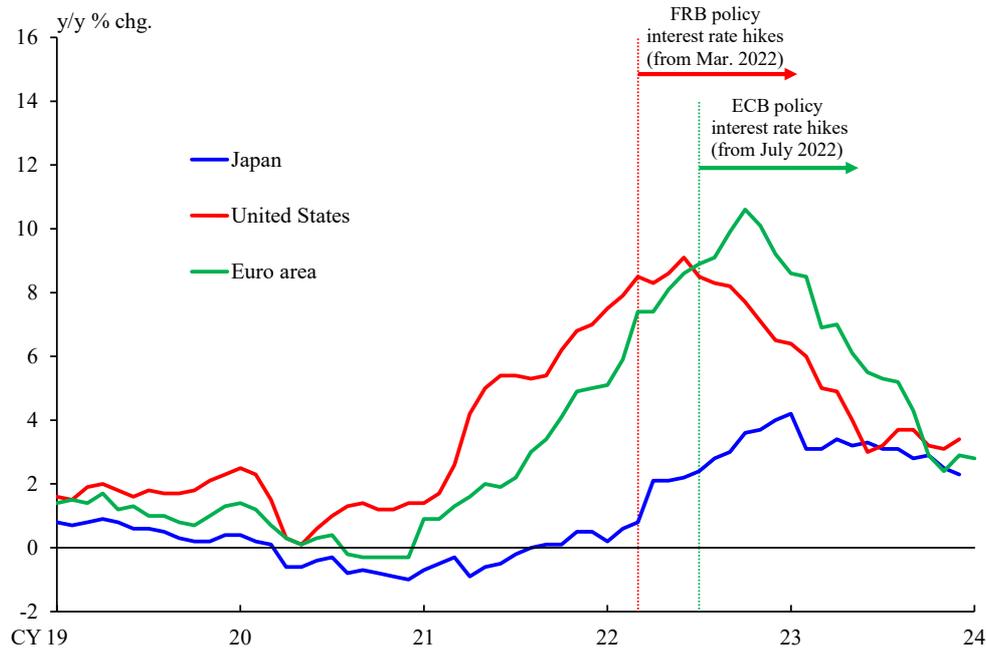


*Real Long-Term Interest Rate (10-Year)*



Note: Figures for real interest rates are calculated by deducting inflation expectations from JGB yields for each maturity. Figures for inflation expectations are based on staff calculations using those of various economic entities (firms, households, and experts) by length of term. Specifically, the data used in the calculations are as follows: for firms, the *Tankan*; for households, the *Opinion Survey on the General Public's Views and Behavior*; for experts, the *QUICK Survey*, the *Consensus Forecasts*, and inflation swap rates.  
 Sources: Bank of Japan; QUICK, "QUICK Monthly Market Survey <Bonds>"; Consensus Economics Inc., "Consensus Forecasts"; Bloomberg.

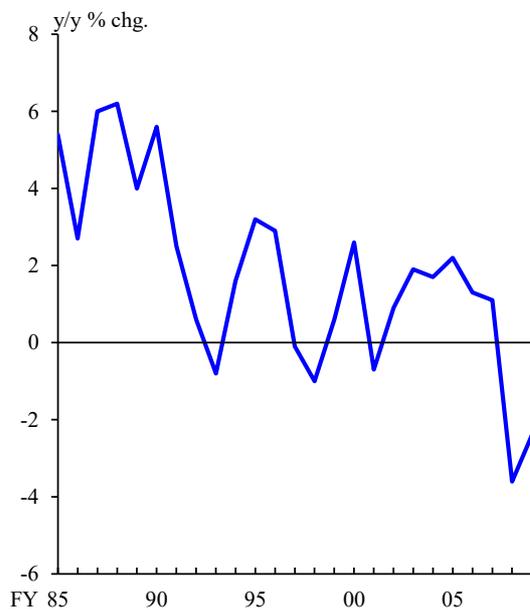
## Consumer Prices in Japan, the U.S., and the Euro Area



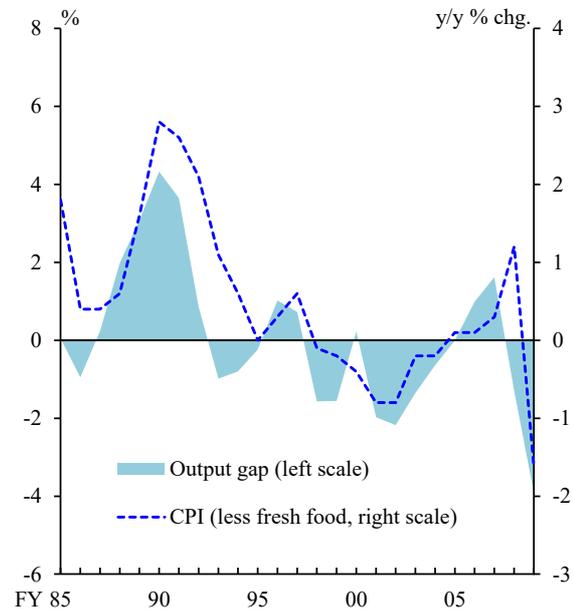
Note: Figures for Japan are the CPI for all items less fresh food, excluding the effects of the consumption tax hike, while those for the United States and the euro area are the CPI for all items. Sources: Bank of Japan; Federal Reserve (FRB); European Central Bank (ECB); Ministry of Internal Affairs and Communications; Haver.

## Japan's Economy in the 1990s and 2000s

*Real GDP Growth Rate*



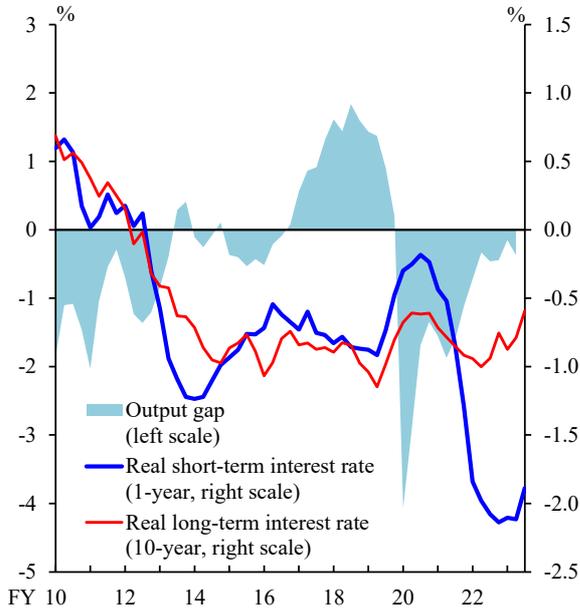
*Output Gap and CPI*



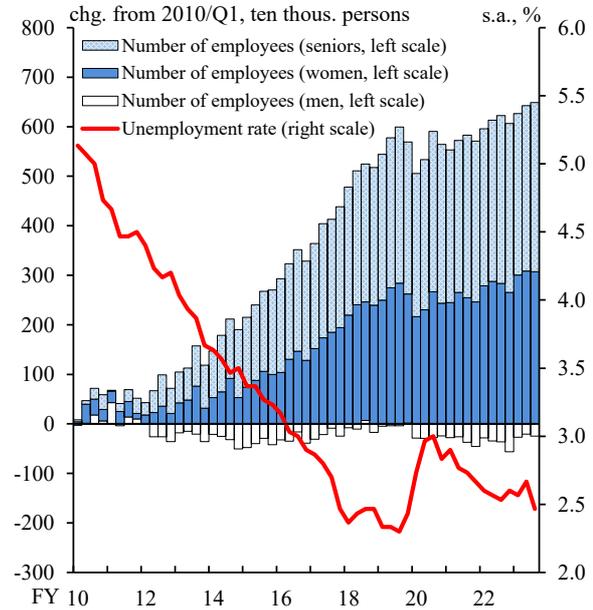
Note: In the right-hand chart, figures for the CPI exclude the effects of the consumption tax hikes, and those for the output gap are staff estimates. Sources: Cabinet Office; Bank of Japan; Ministry of Internal Affairs and Communications.

## Japan's Economy since the 2010s

*Output Gap and Real Interest Rates*

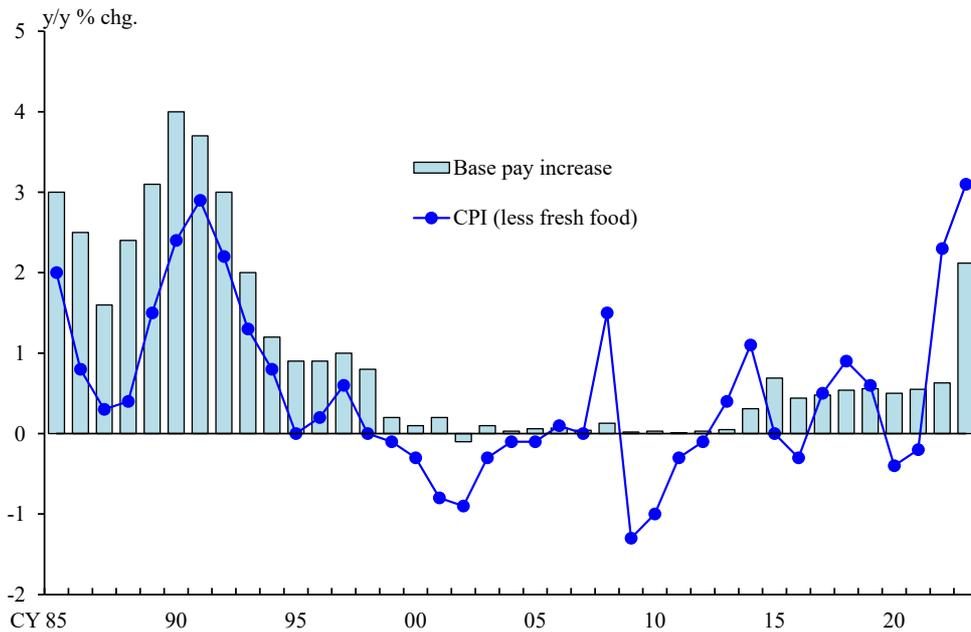


*Labor Market*



Notes: 1. In the left-hand chart, figures for the output gap are staff estimates. As for the real interest rates, see the note for Chart 10.  
 2. In the right-hand chart, figures for women and men are for employees aged between 15 and 64, while those for seniors are for employees aged 65 and over.  
 Sources: Bank of Japan; QUICK, "QUICK Monthly Market Survey <Bonds>"; Consensus Economics Inc., "Consensus Forecasts"; Bloomberg; Ministry of Internal Affairs and Communications.

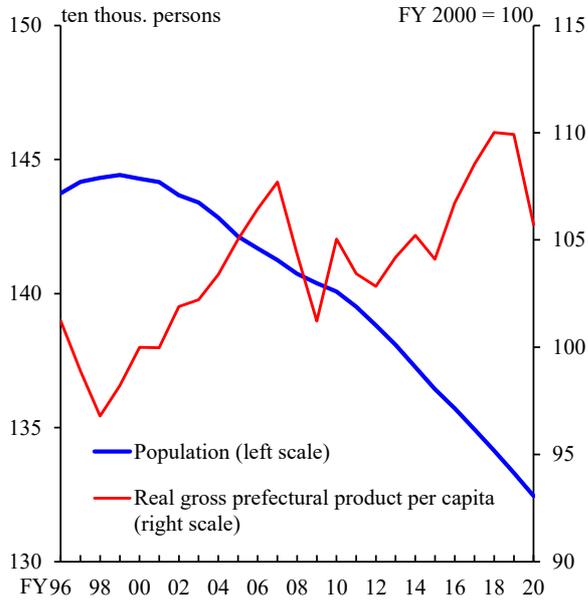
## Base Pay Increase and Prices



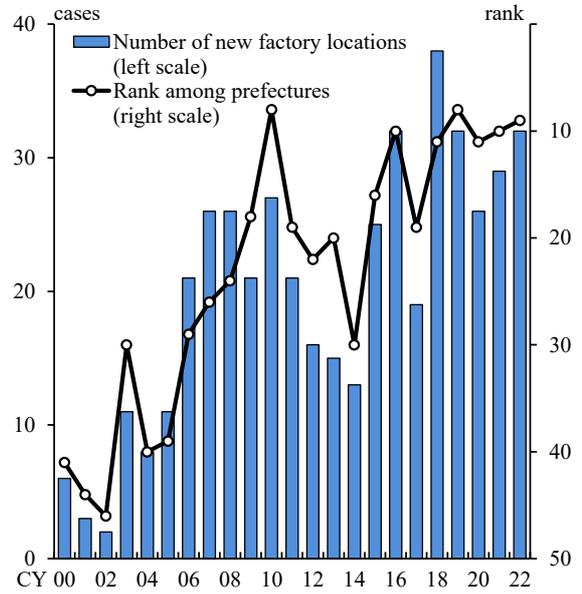
Notes: 1. Figures for base pay increase from 1985 to 2014 are those published by the Central Labour Relations Commission, while those from 2015 to 2023 are figures released by Rengo.  
 2. Figures for the CPI exclude the effects of the consumption tax hikes.  
 Sources: Ministry of Internal Affairs and Communications; Central Labour Relations Commission; Japanese Trade Union Confederation (Rengo).

# Economic Activity in Nara Prefecture

*Population and Gross Prefectural Product per Capita*



*Number of New Factory Locations*



Sources: Ministry of Economy, Trade and Industry; Cabinet Office.