

# Virtuous Cycle between Wages and Prices and the Bank of Japan's Monetary Policy

*Speech at a Meeting Held by  
the Yomiuri International Economic Society in Tokyo*

May 8, 2024

UEDA Kazuo

*Governor of the Bank of Japan*

## Introduction

### I. Economic Activity

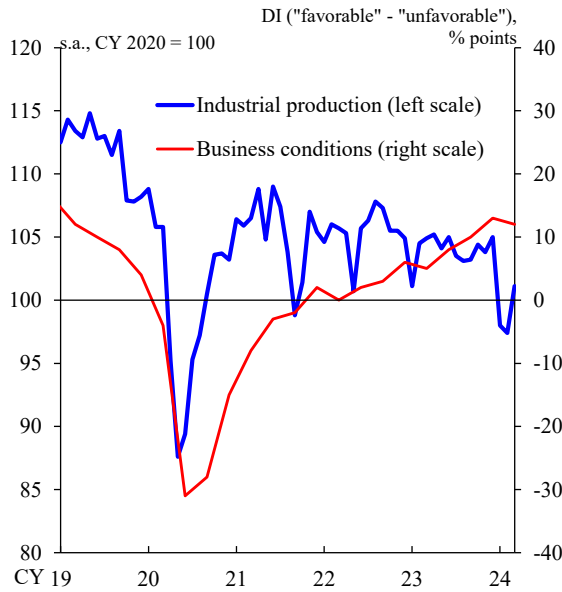
### II. Price Developments

### III. The Bank's Monetary Policy

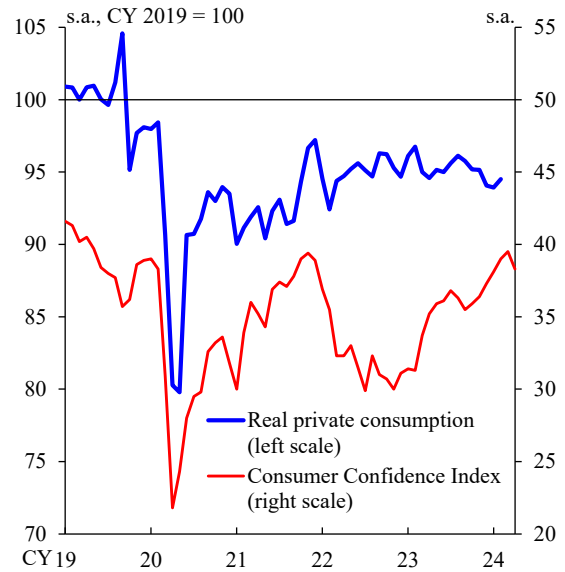
## Concluding Remarks

# Current Situation of Economic Activity in Japan

## Corporate Sector



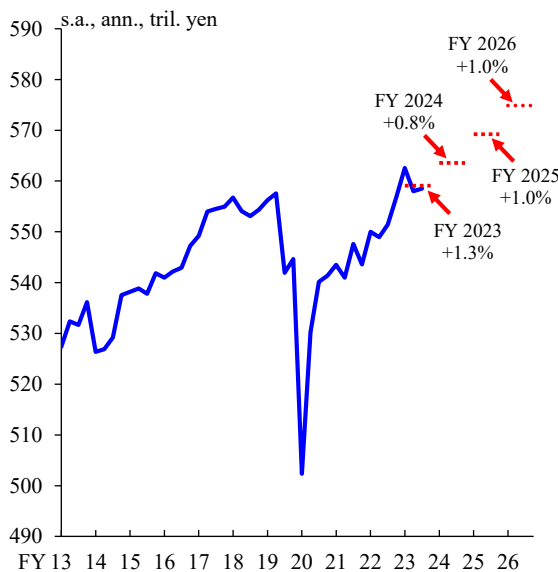
## Household Sector



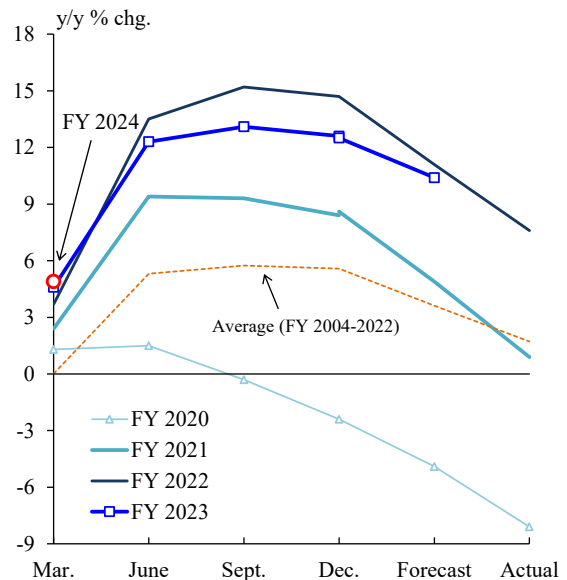
Notes: 1. In the left-hand chart, figures for business conditions are based on the *Tankan*.  
 2. In the right-hand chart, figures for real private consumption are the real Consumption Activity Index (travel balance adjusted) based on staff calculations, which exclude inbound tourism consumption and include outbound tourism consumption.  
 Sources: Ministry of Economy, Trade and Industry; Bank of Japan; Cabinet Office.

# Outlook for Economic Activity in Japan

## The Bank's Forecasts for Real GDP



## Developments in Business Fixed Investment Plans

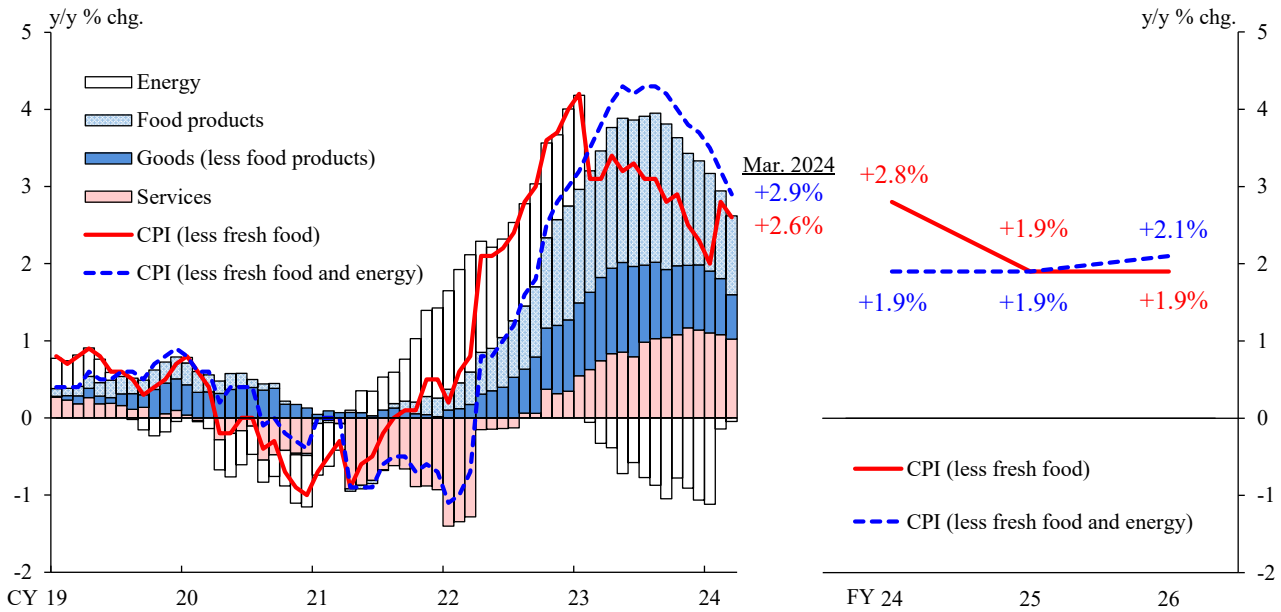


Notes: 1. In the left-hand chart, the forecasts presented are the medians of the Policy Board members' forecasts in the April 2024 Outlook Report. The values of real GDP for fiscal 2023 onward are calculated by multiplying the actual figure for fiscal 2022 by all successive projected growth rates for each year.  
 2. In the right-hand chart, figures are based on the *Tankan*. All industries including financial institutions. Including software and R&D investments and excluding land purchasing expenses. R&D investment is not included before the March 2017 survey. There are discontinuities in the data for December 2021 and December 2023 due to changes in the survey sample.  
 Sources: Cabinet Office; Bank of Japan.

# Developments in Consumer Prices

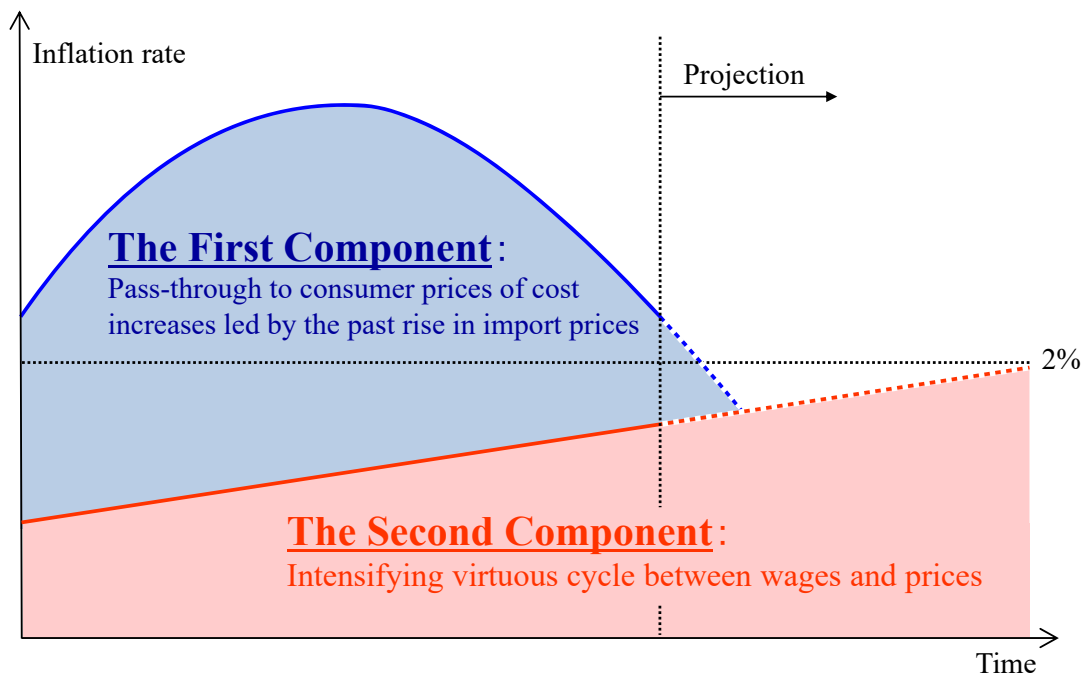
## Developments over Time

## Forecasts



Note: In the right-hand chart, the forecasts presented are the medians of the Policy Board members' forecasts in the April 2024 Outlook Report.  
Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

# Japan's Recent Inflation Dynamics: An Illustration

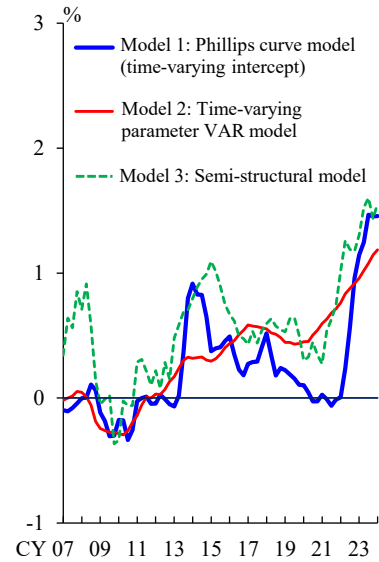
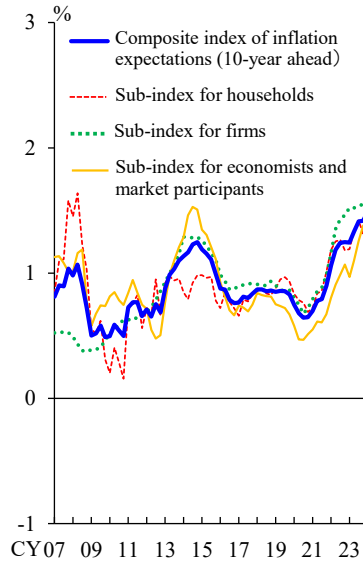
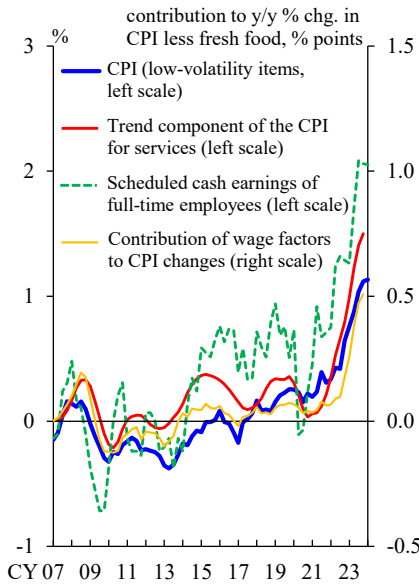


# Three Approaches to Capturing Underlying Inflation

## 1. Price Statistics

## 2. Inflation Expectations

## 3. Economic Models

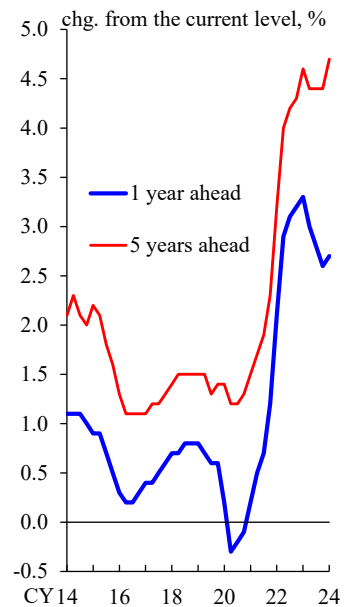
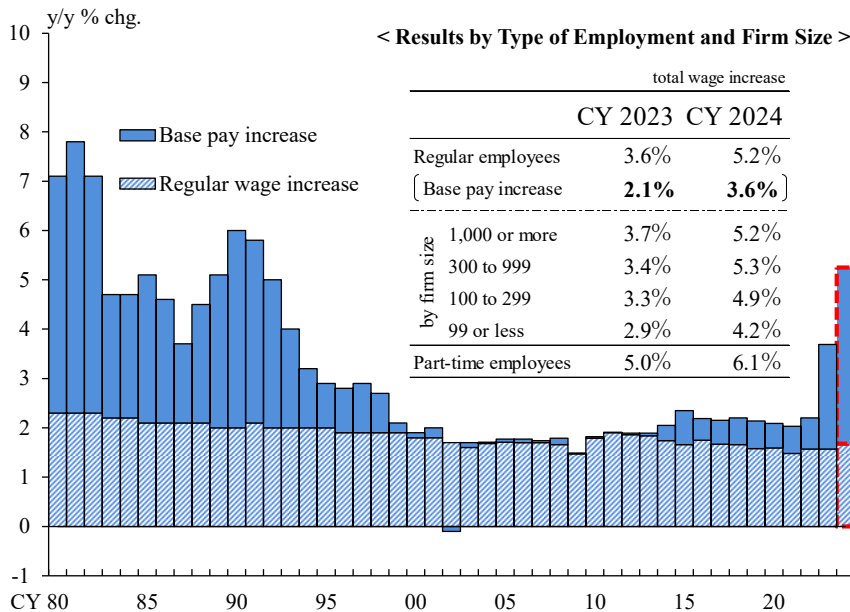


Note: For details of each approach, see Box 4 of the April 2024 Outlook Report.  
 Sources: Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare; Bank of Japan; QUICK, "QUICK Monthly Market Survey <Bonds>"; Consensus Economics Inc., "Consensus Forecasts"; Bloomberg; Cabinet Office; Google Trends.

# Firms' Wage- and Price-Setting Behavior

## Results of Spring Wage Negotiations

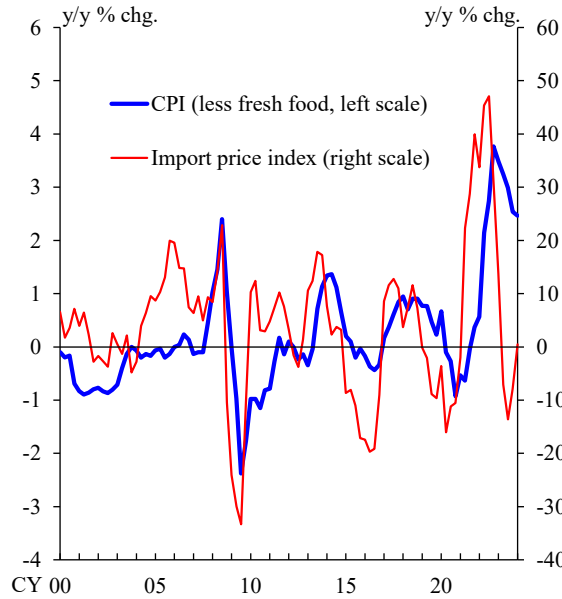
## Firms' Outlook for Output Prices



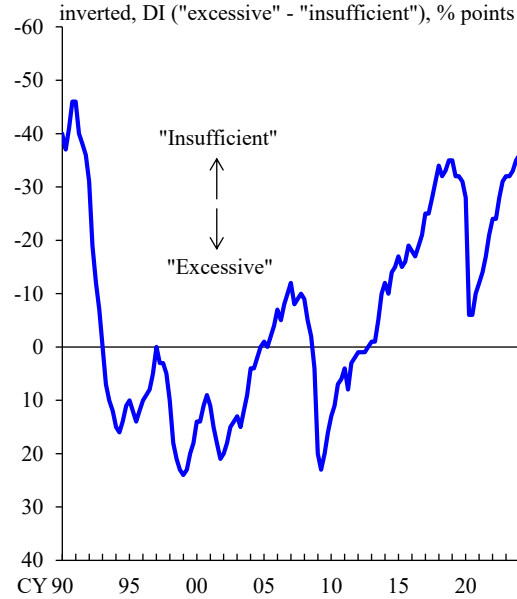
Notes: 1. In the left-hand chart, figures from 1980 to 2014 are those published by the Central Labour Relations Commission, while those from 2015 to 2024 are figures released by Rengo. Figures for base pay increase and regular wage increase are aggregated values of the wage negotiation results of labor unions for which the base pay increase is clear. Figures for part-time employees are increases in hourly wages of fixed-term employees. The figures for 2024 are from Rengo's fourth aggregation.  
 2. In the right-hand chart, figures are based on the *Tankan*.  
 Sources: Japanese Trade Union Confederation (Rengo); Central Labour Relations Commission; Bank of Japan.

# Import Prices and Labor Market Conditions

*Import Prices and the CPI*



*Firms' Perception of Labor Shortage*

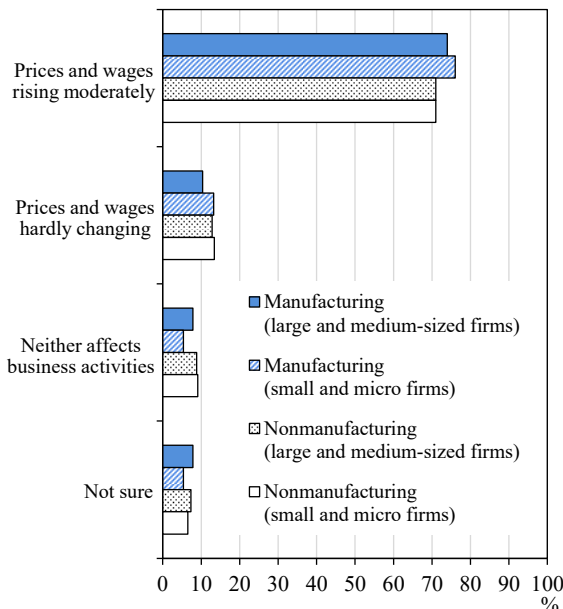


Notes: 1. In the left-hand chart, figures for CPI exclude the effects of the consumption tax hikes. Figures for the import price index are on a yen basis.  
 2. In the right-hand chart, figures are the employment conditions DI in the *Tankan*.  
 Sources: Bank of Japan; Ministry of Internal Affairs and Communications.

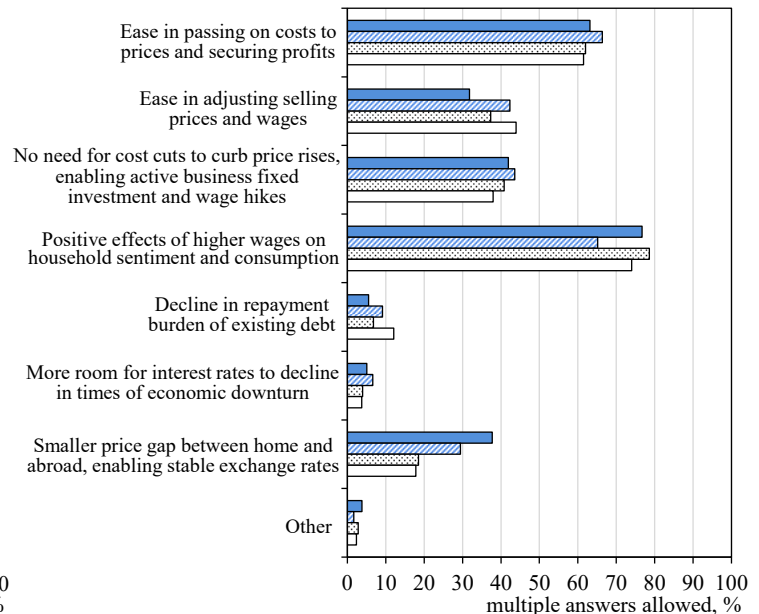
# Firms' Views on Rises in Prices and Wages

-- Survey regarding Corporate Behavior since the Mid-1990s --

*Preferable State of Prices and Wages for Business Activities*



*Reasons for Preferring a Moderate Rise in Prices and Wages*

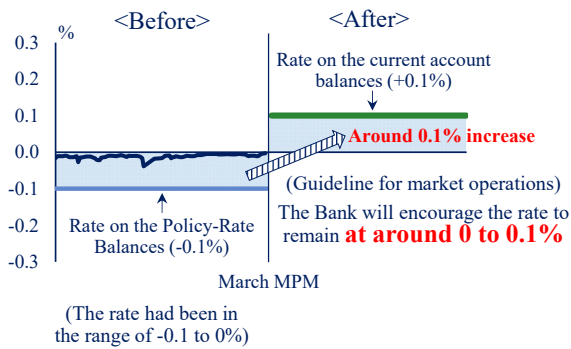


Note: In the right-hand chart, figures are the ratios among firms which responded "prices and wages rising moderately" as a preferable state in the left-hand chart.  
 Source: Bank of Japan.

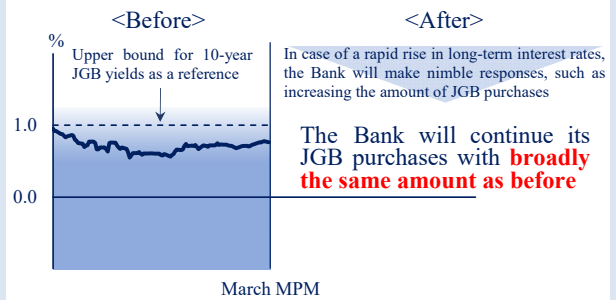
## Changes in the Monetary Policy Framework (March 2024)

- As recent data and anecdotal information have gradually shown that the virtuous cycle between wages and prices has become more solid, the Bank judged **it came in sight that the price stability target of 2 percent would be achieved in a sustainable and stable manner**. It considers that **its large-scale monetary easing measures have fulfilled their roles**, including the negative interest rate policy and the yield curve control.
- With the price stability target, the Bank will conduct monetary policy as appropriate, **guiding the short-term interest rate as a primary policy tool**, in response to developments in economic activity and prices as well as financial conditions from the perspective of sustainable and stable achievement of the target. Given the current outlook for economic activity and prices, it anticipates that **accommodative financial conditions will be maintained for the time being**.

### Short-term interest rate (uncollateralized overnight call rate)



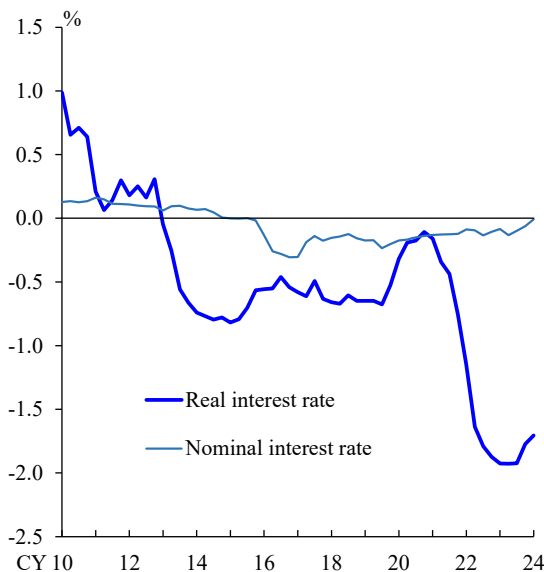
### Long-term interest rates



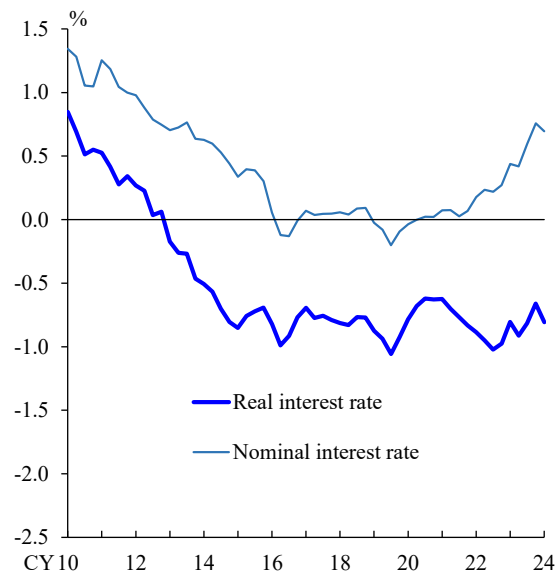
**ETFs and J-REITs** The Bank will discontinue purchases

## Real Interest Rates

1-Year

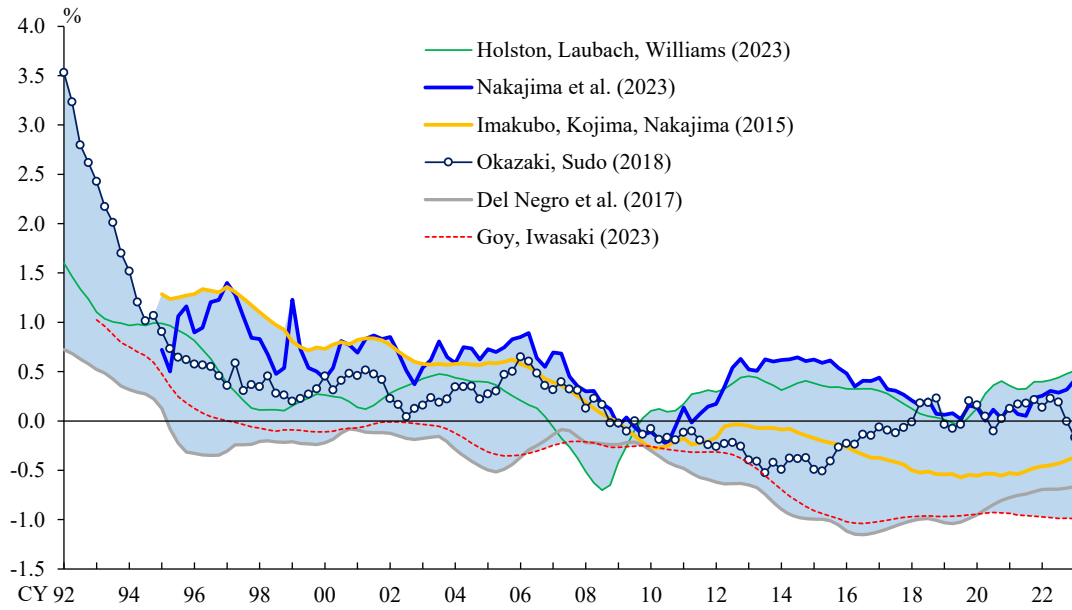


10-Year



Note: Figures for real interest rates for each maturity are calculated as government bond yields minus the composite index of inflation expectations (staff estimates) for the corresponding maturity. Sources: Bank of Japan; QUICK, "QUICK Monthly Market Survey <Bonds>"; Consensus Economics Inc., "Consensus Forecasts"; Bloomberg.

## Estimates of the Natural Rate of Interest for Japan



Note: The estimates are based on staff calculations using the models proposed in the different papers. The shaded area indicates the range of natural interest rate estimates from the minimum to the maximum.

Sources: Bank of Japan; Ministry of Finance; Ministry of Health, Labour and Welfare; Cabinet Office; Ministry of Internal Affairs and Communications; Bloomberg; Consensus Economics Inc., "Consensus Forecasts."