



# Economic Activity, Prices, and Monetary Policy in Japan

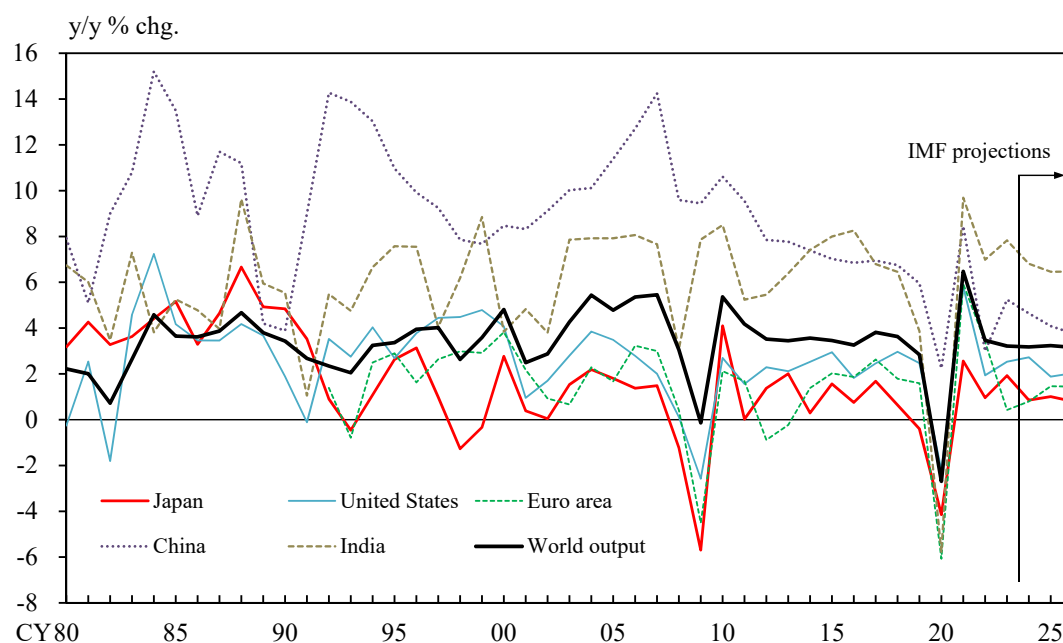
*Speech at a Meeting with Local Leaders in Sapporo*

June 6, 2024

NAKAMURA Toyoaki  
Member of the Policy Board  
Bank of Japan

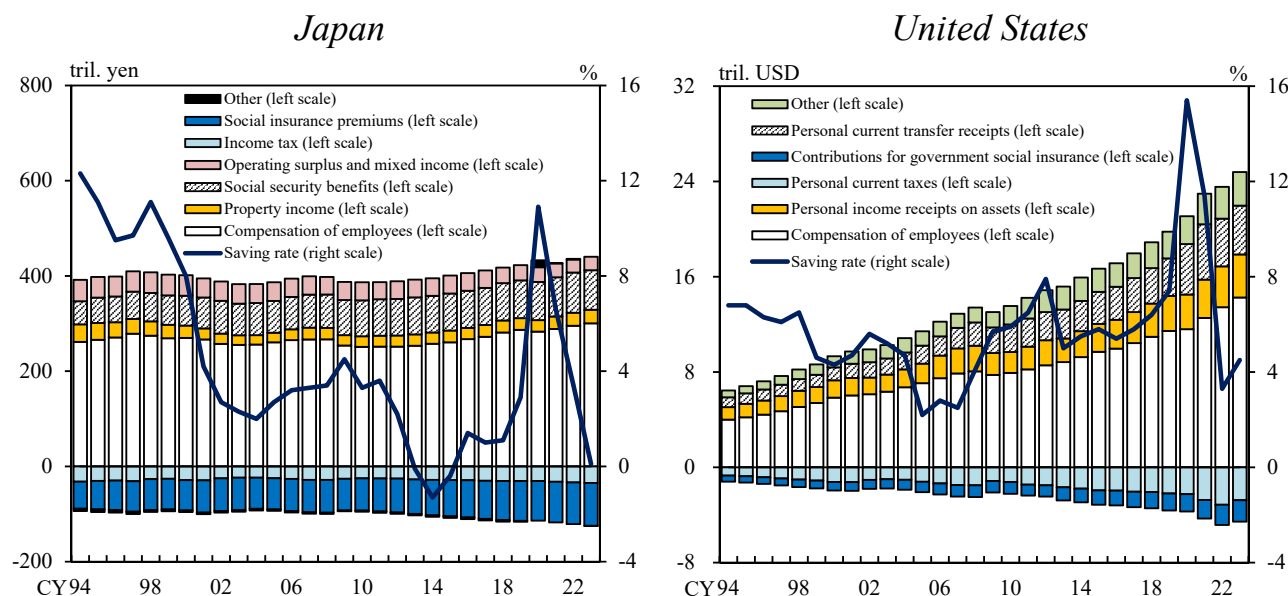
Chart 1

## IMF Projections in the *World Economic Outlook* (April 2024)



Source: IMF.

# Household Disposable Income Breakdown and Saving Rates



Sources: Cabinet Office; U.S. Bureau of Economic Analysis (BEA).

Chart 3

## Forecasts of the Majority of the Policy Board Members

	Real GDP	CPI (all items less fresh food)	(Reference) CPI (all items less fresh food and energy)
Fiscal 2023	+1.3 to +1.4 [+1.3]	+2.8	+3.9
Forecasts made in January 2024	+1.6 to +1.9 [+1.8]	+2.8 to +2.9 [+2.8]	+3.7 to +3.9 [+3.8]
Fiscal 2024	+0.7 to +1.0 [+0.8]	+2.6 to +3.0 [+2.8]	+1.7 to +2.1 [+1.9]
Forecasts made in January 2024	+1.0 to +1.2 [+1.2]	+2.2 to +2.5 [+2.4]	+1.6 to +2.1 [+1.9]
Fiscal 2025	+0.8 to +1.1 [+1.0]	+1.7 to +2.1 [+1.9]	+1.8 to +2.0 [+1.9]
Forecasts made in January 2024	+1.0 to +1.2 [+1.0]	+1.6 to +1.9 [+1.8]	+1.8 to +2.0 [+1.9]
Fiscal 2026	+0.8 to +1.0 [+1.0]	+1.6 to +2.0 [+1.9]	+1.9 to +2.1 [+2.1]

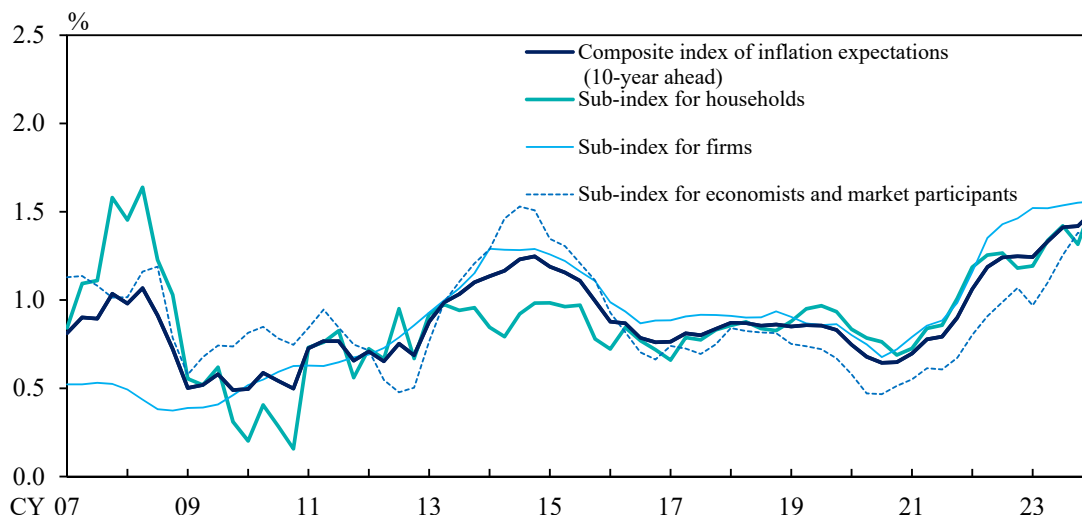
Notes: 1. Figures in brackets indicate the medians of the Policy Board members' forecasts (point estimates).

2. The forecasts of the majority of the Policy Board members are constructed as follows: each Policy Board member's forecast takes the form of a point estimate -- namely, the figure to which they attach the highest probability of realization. These forecasts are then shown as a range, with the highest figure and the lowest figure excluded. The range does not indicate the forecast errors.

3. Each Policy Board member makes their forecasts taking into account the effects of past policy decisions and with reference to views incorporated in financial markets regarding the future conduct of policy.

Source: Bank of Japan.

## Composite Index of 10-Year-Ahead Inflation Expectations, by Type of Economic Agents

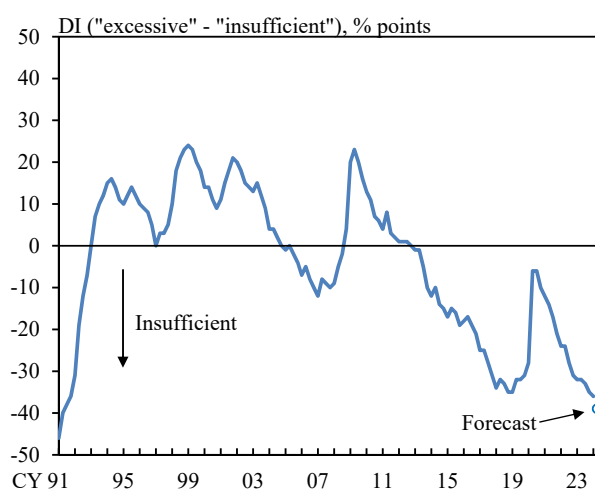


Note: The composite index is calculated by extracting the common components, based on the first principal component, of the inflation expectations of firms, households, and economists and market participants. For details on the calculation method, see Box 4 in the April 2024 Outlook Report.

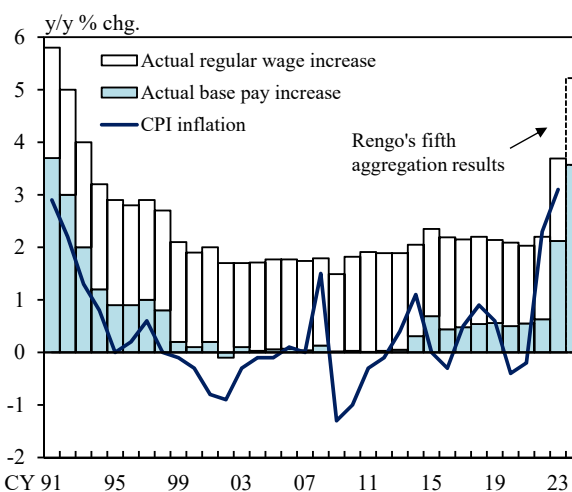
Sources: Bloomberg; Consensus Economics Inc., *Consensus Forecasts*; QUICK, *QUICK Monthly Market Survey <Bonds>*; Bank of Japan.

## Firms' Willingness to Raise Wages

### Employment Conditions DI



### Results of the Annual Spring Labor-Management Wage Negotiations

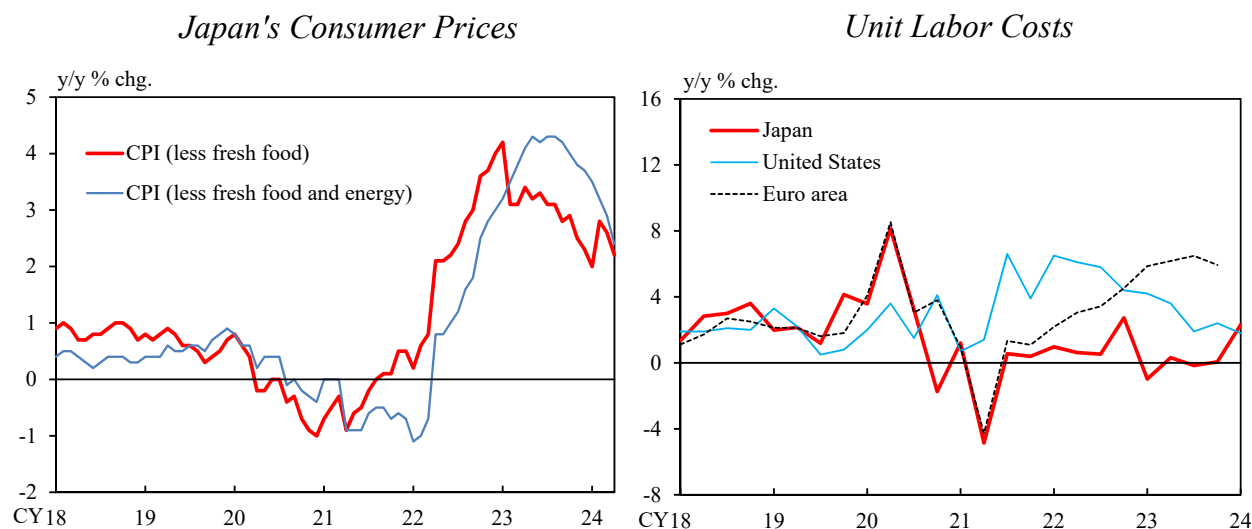


Notes: 1. In the left panel, figures are for all industries and enterprises, excluding financial institutions.

2. In the right panel, figures for CPI inflation are for all items less fresh food, excluding the effects of the consumption tax hikes. Figures for the actual base pay increase and the actual regular wage increase from 1991 to 2014 are those published by the Central Labour Relations Commission, while those from 2015 onward are figures released by Rengo. Figures are based on the wage negotiation results submitted by labor unions for which the base pay increase is clear. The figures for 2024 are from Rengo's fifth aggregation.

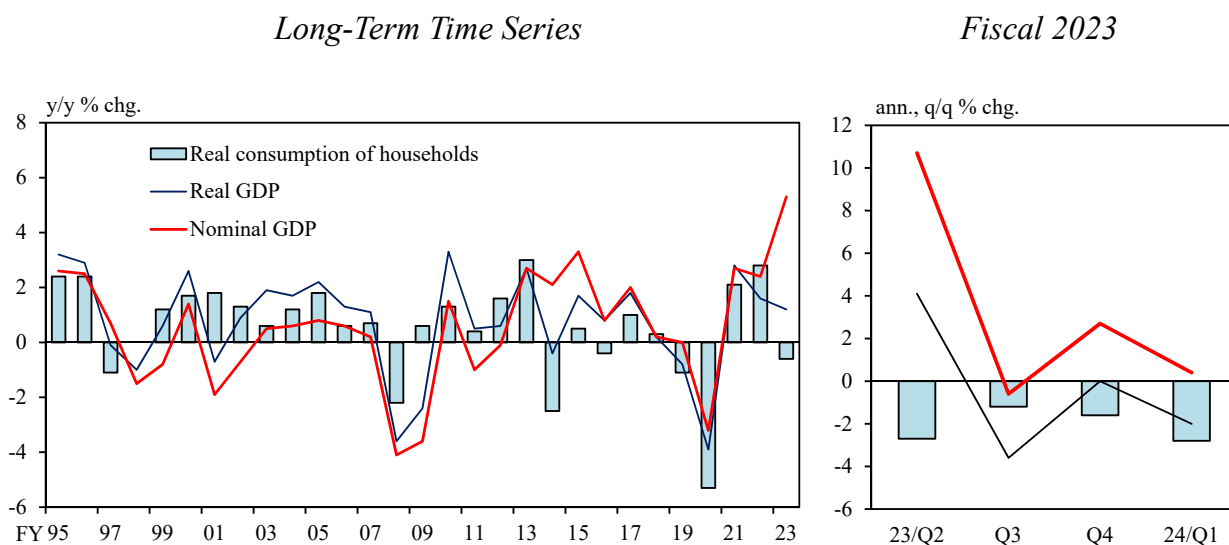
Sources: Central Labour Relations Commission; Ministry of Internal Affairs and Communications; Rengo; Bank of Japan.

## Consumer Prices and Unit Labor Costs



Sources: Cabinet Office; Haver; Ministry of Internal Affairs and Communications; U.S. Bureau of Labor Statistics (BLS).

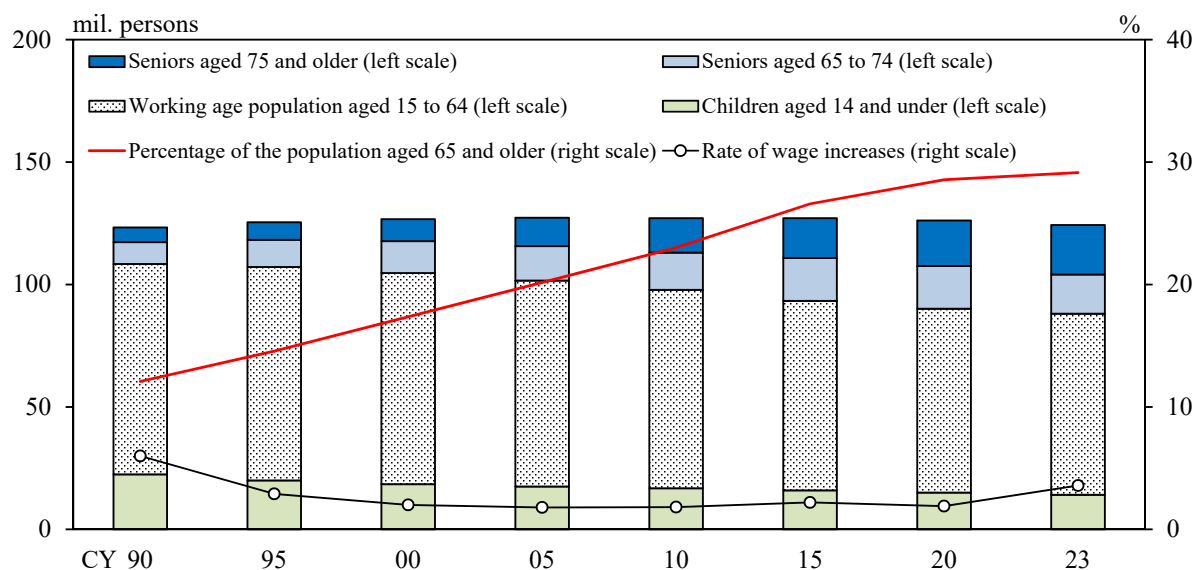
## Consumption of Households and GDP



Source: Cabinet Office.

Chart 8

## Japan's Demographic Composition and Rate of Wage Increases

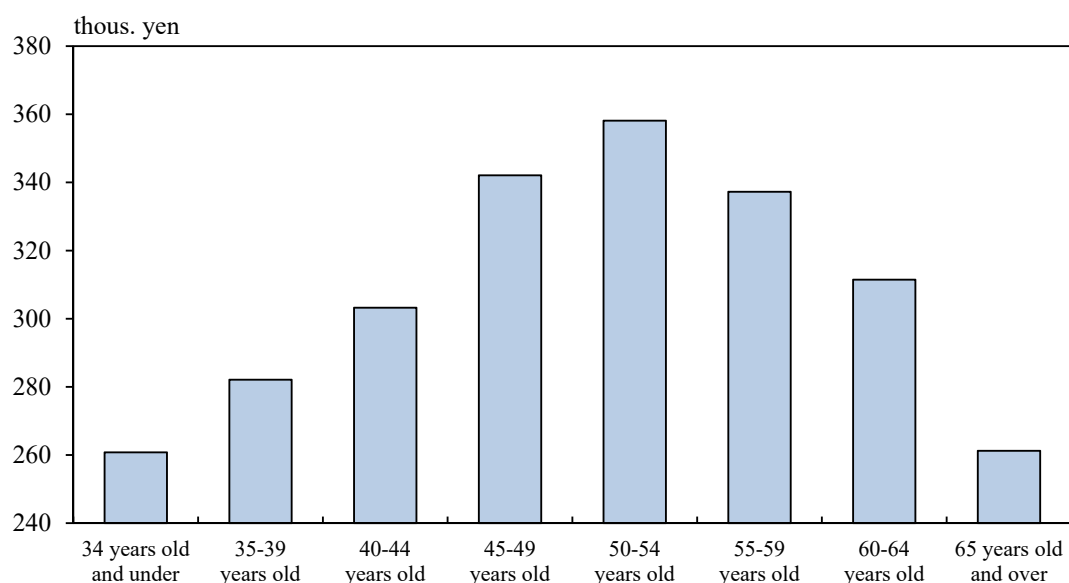


Note: Figures for the rate of wage increases until 2010 are those released by the Central Labour Relations Commission, while those from 2015 onward are figures released by Rengo. Figures for the demographic composition through 2020 are based on the *Population Census* and those for 2023 are based on the final estimates of *Population Estimates* (as of December 1, 2023), both of which are released by the Ministry of Internal Affairs and Communications.

Sources: Central Labour Relations Commission; Ministry of Internal Affairs and Communications; Rengo.

Chart 9

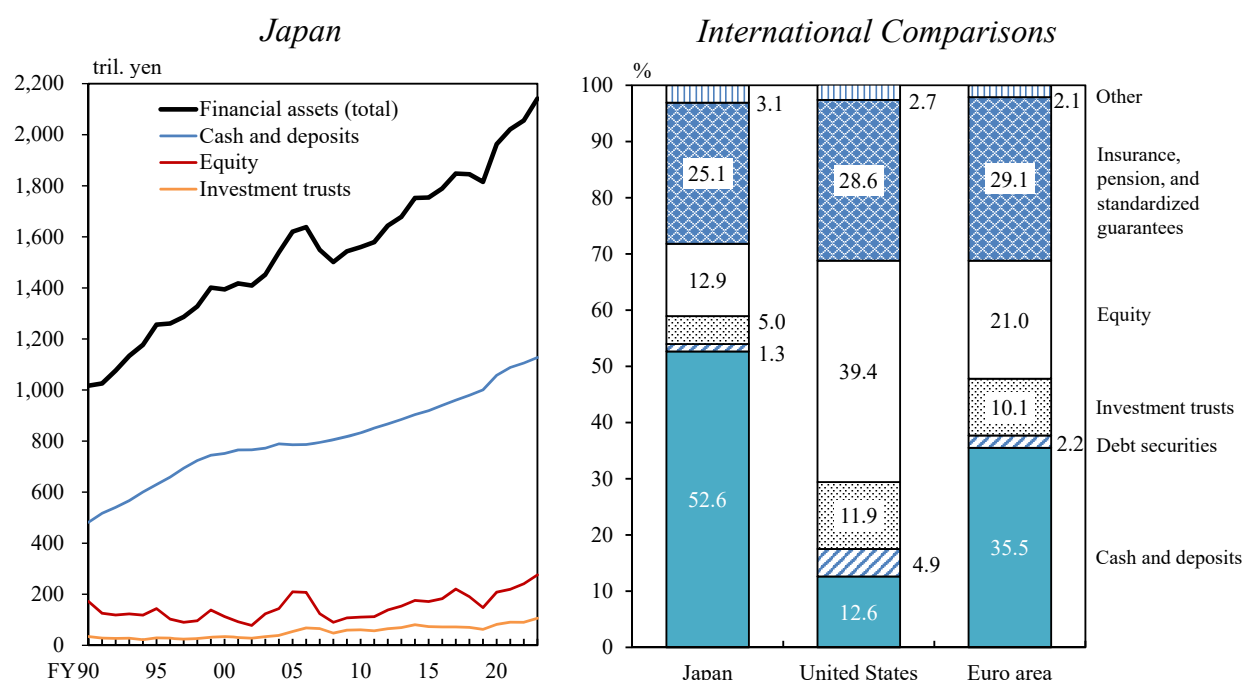
## Average Consumption Expenditure by Age Group of Household Head (as of 2023)



Note: Average monthly amount for two-or-more-person households.

Source: Ministry of Internal Affairs and Communications.

# Household Financial Assets

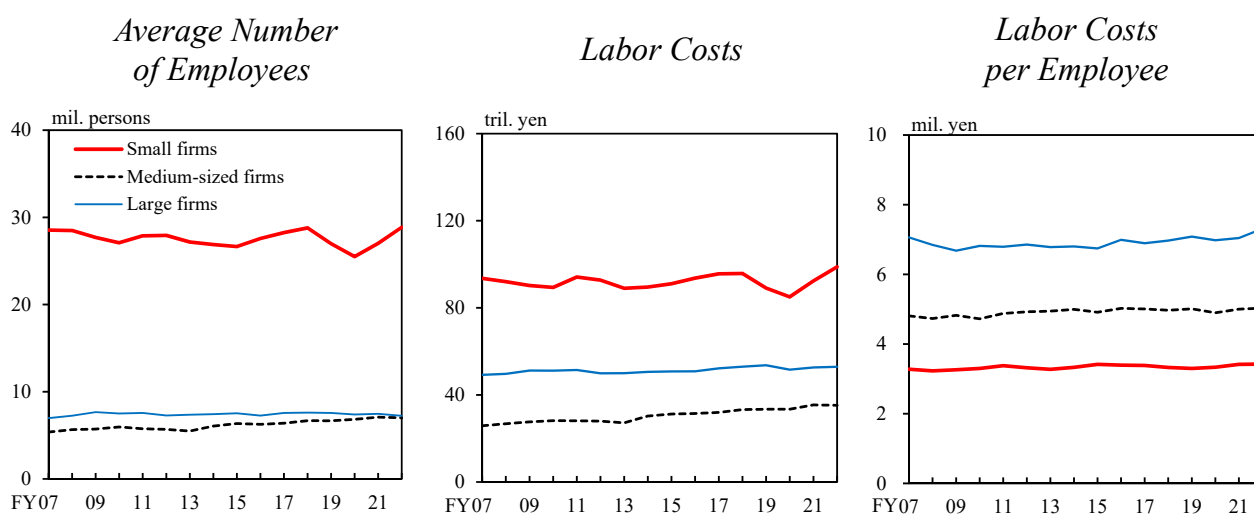


Notes: 1. In the left panel, figures for fiscal 2023 are as of end-December 2023.

2. In the right panel, figures for Japan are as of end-December 2023. Figures for the United States and the Euro area are as of end-March 2023, based on "Flow of Funds: Overview of Japan, the United States, and the Euro area," released by the Bank's Research and Statistics Department on August 25, 2023.

Source: Bank of Japan.

# Importance of Small and Medium-Sized Firms



Notes: 1. Figures are based on the *Financial Statements Statistics of Corporations by Industry, Annually*, and exclude the finance and insurance industries. Large firms are commercial corporations with capital of 1 billion yen or more. Medium-sized firms are commercial corporations with capital of 100 million yen or more but less than 1 billion yen. Small firms are commercial corporations with capital of less than 100 million yen.

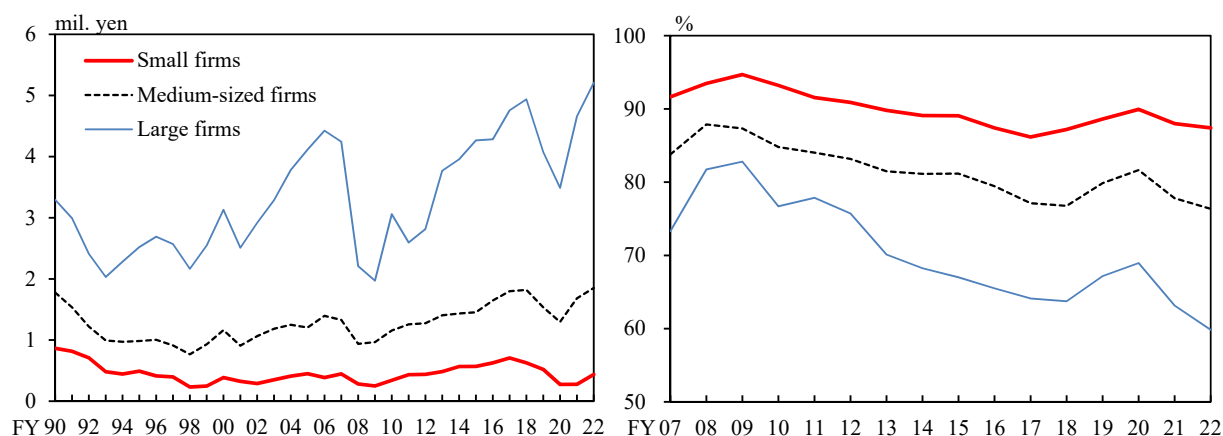
2. Labor costs include salaries and wages, bonuses, and welfare expenses.

Source: Ministry of Finance.

## Earning Power and Capacity for Raising Wages by Firm Size

*Operating Profits per Employee*

*Break-Even Ratio*



Notes: 1. Figures are based on the *Financial Statements Statistics of Corporations by Industry, Annually*, and exclude the finance and insurance industries. Large firms are commercial corporations with capital of 1 billion yen or more. Medium-sized firms are commercial corporations with capital of 100 million yen or more but less than 1 billion yen. Small firms are commercial corporations with capital of less than 100 million yen.

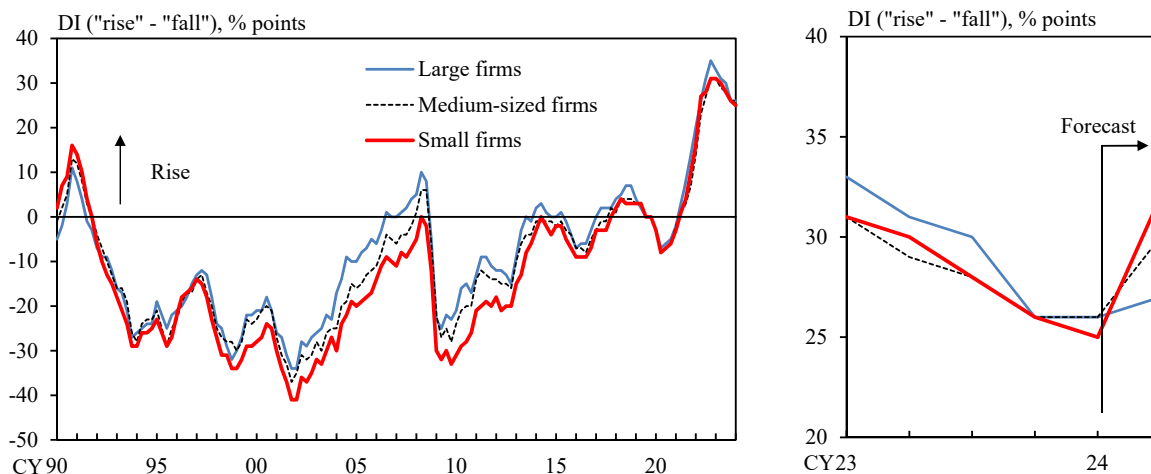
2. Break-even ratio = break-even sales / sales. Break-even sales = fixed costs / marginal profit ratio. Fixed costs = labor costs + interest expenses, etc. + depreciation and amortization expenses + rent on movable property and real estate. Marginal profit ratio = (sales - variable costs) / sales. Variable costs = sales - fixed costs - current profits.

Source: Ministry of Finance.

## Improvement in Price Pass-Through Environment (DI for Output Prices)

*Long-Term Time Series*

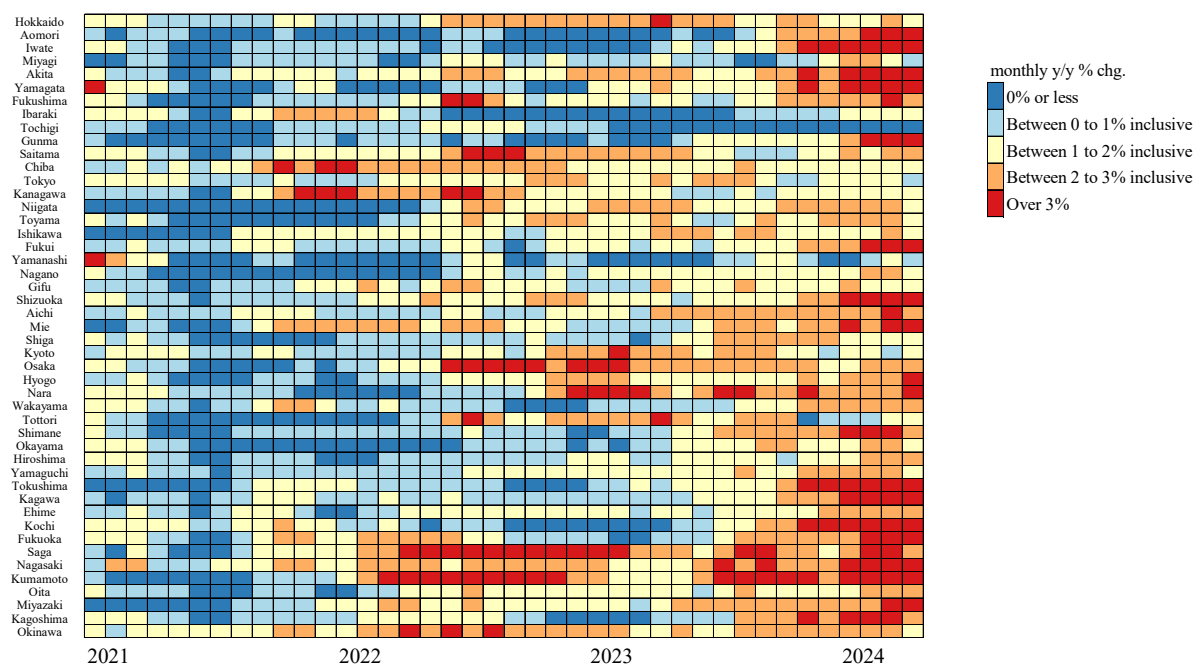
*2023 Onward*



Note: Figures are for all industries and enterprises, excluding financial institutions.

Source: Bank of Japan.

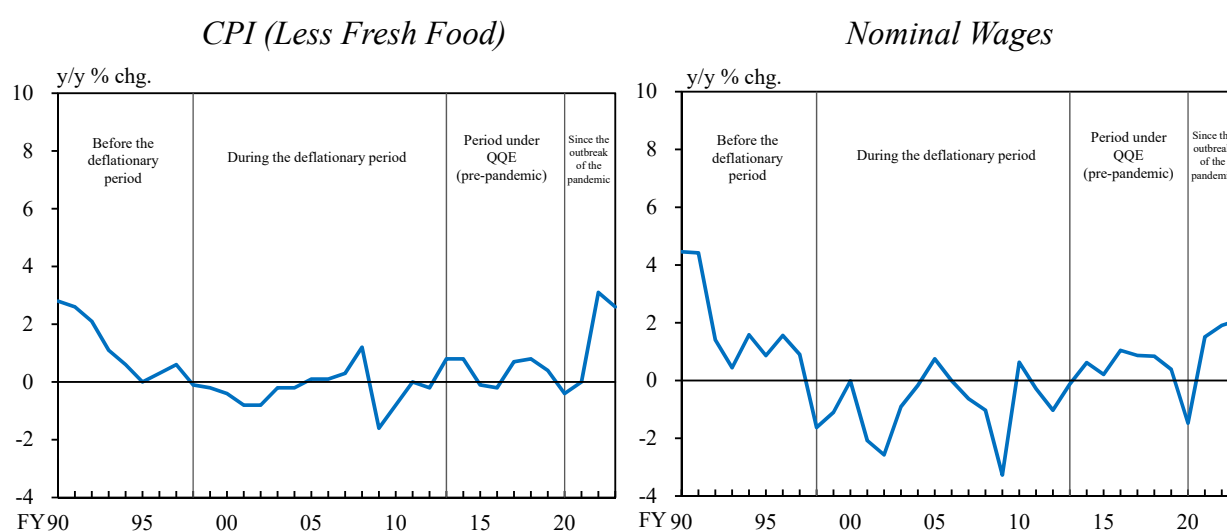
## Growth in Wages of Regular Employees at Time of Recruitment by Prefecture



Note: This heatmap is based on analysis by Dai-ichi Life Research Institute Inc., using *HRog Wage Now* released by Nowcast Inc.

Source: Dai-ichi Life Research Institute Inc.

## Prices and Wages



Notes: 1. Figures for the CPI (less fresh food) are Bank staff estimates and exclude the effects of consumption tax hikes, policies concerning the provision of free education, travel subsidy programs, and the reduction in mobile phone charges.

2. Figures for nominal wages are for establishments with 30 or more employees for fiscal 1990, and with 5 or more employees from fiscal 1991 onward. Figures from fiscal 2016 onward are based on continuing observations following the sample revisions.

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



## Promoting a Virtuous Cycle by Strengthening the Earning Power of Firms

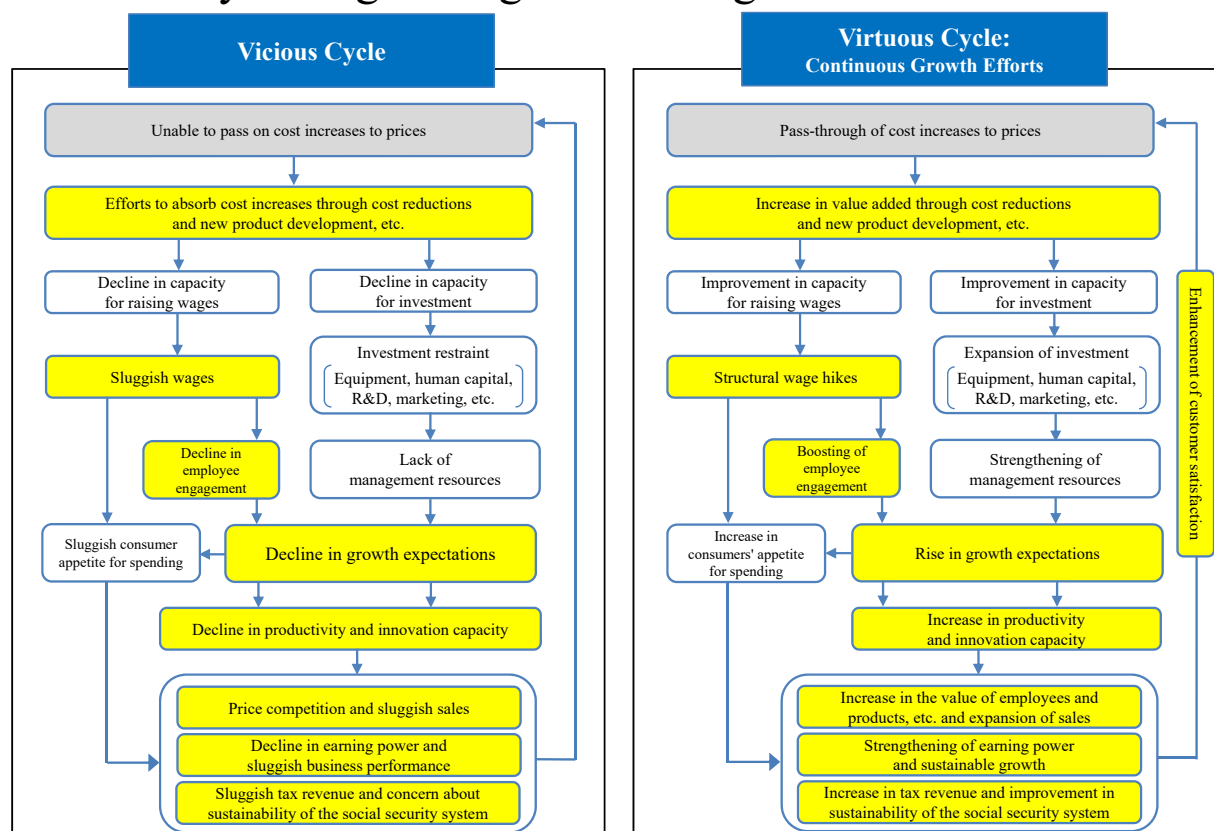
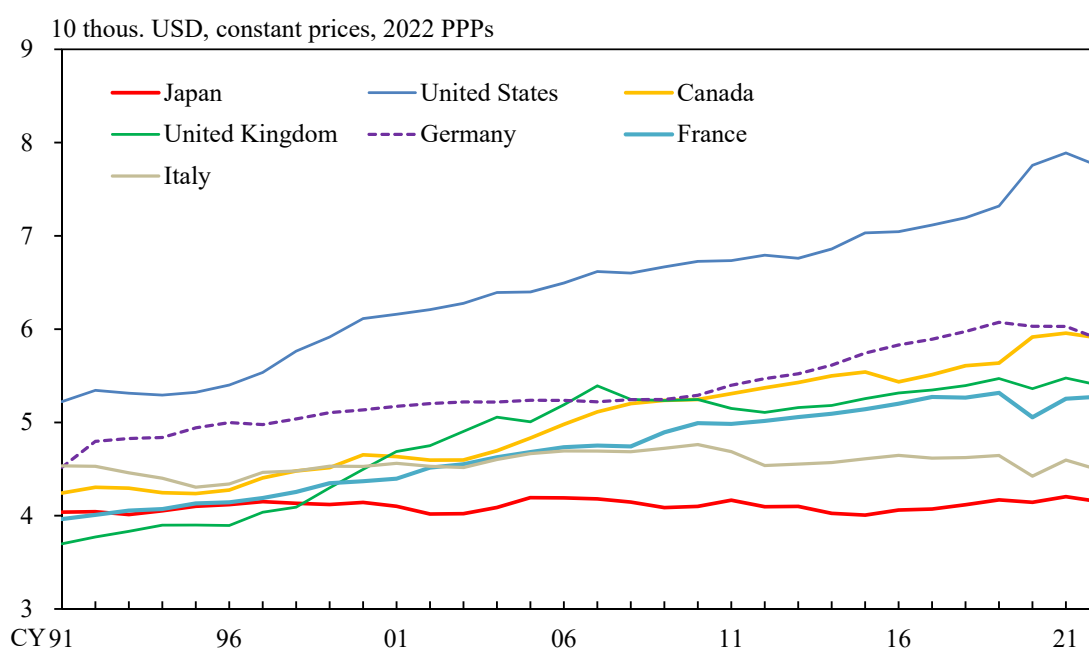


Chart 17

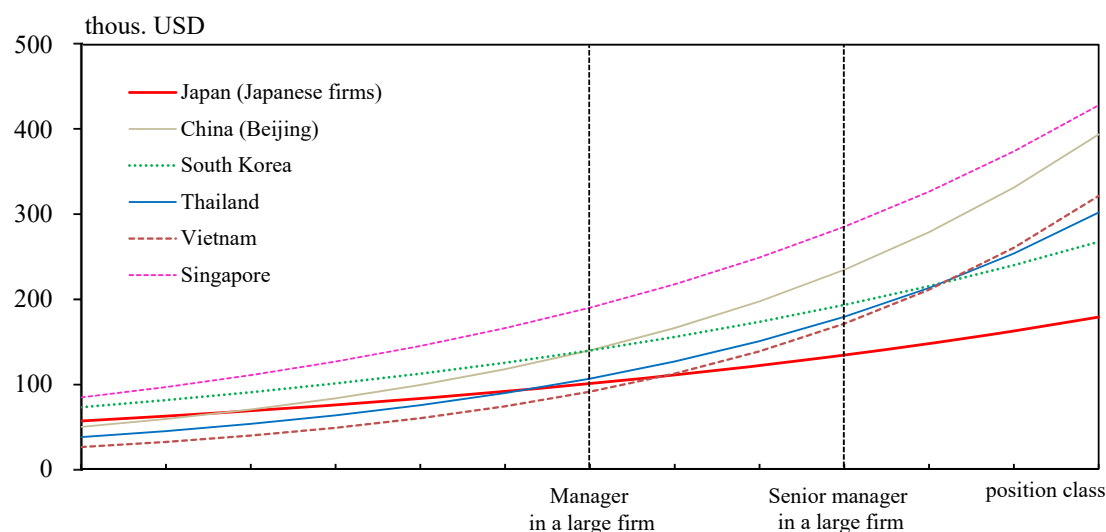
## Comparison of Average Annual Wages in G7 Countries



Note: Average annual wages in full-time equivalent.

Source: OECD.

## Annual Pay Comparison with Asian Economies (as of 2023)

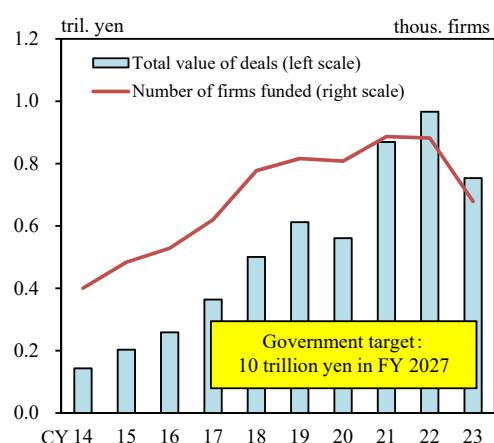


Notes: 1. The horizontal axis shows the level of the position class as defined by Mercer. Position classes below the executive level at large firms are shown in this chart. The further to the right, the higher the position class.  
2. Figures include incentives paid for 100 percent achievement of performance targets and are the medians for each position class.

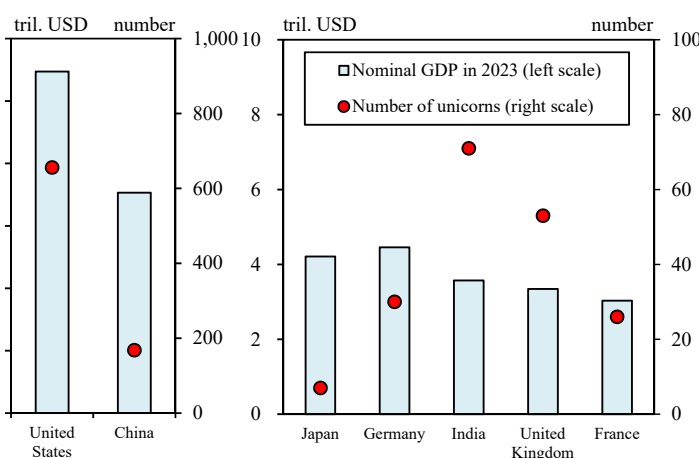
Source: Mercer, 2023 Total Remuneration Survey.

## Startups

### Startup Funding in Japan: Total Value and Number of Firms Funded



### GDP Size and Number of Unicorns



Notes: 1. In the left panel, the total value of deals is defined as follows: for unlisted startups, the amount of funds raised since their establishment to the time of the survey, in terms of equity or other financial instruments that may be converted into equity; for startups that launched initial public offerings (IPOs), the amount of funds raised immediately before the IPO.  
2. In the right panel, the number of unicorns is calculated based on CB Insights, "Global Unicorn Club: Private Companies Valued at \$1B+ (as of March 20th, 2024)," <https://www.cbinsights.com/research-unicorn-companies>.

Sources: CB Insights; IMF; INITIAL, Japan Startup Ecosystem Report 2023.

## Dynamism of Firms and Employment

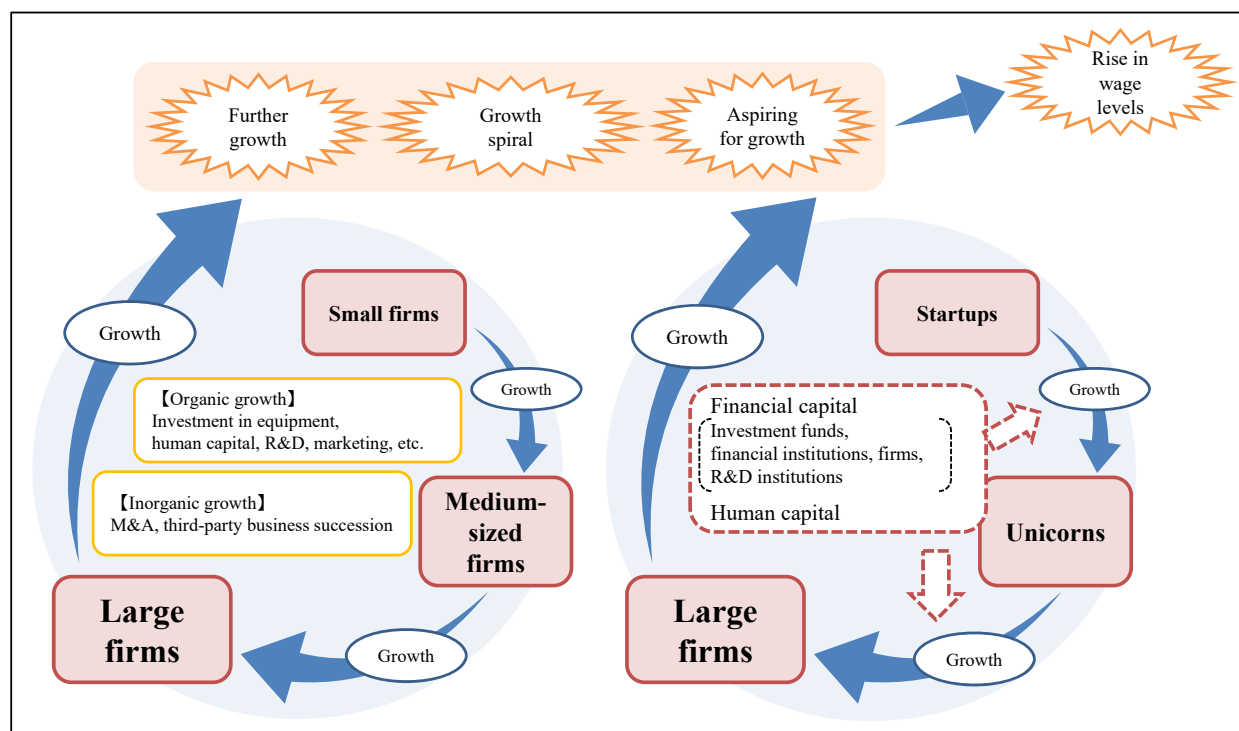
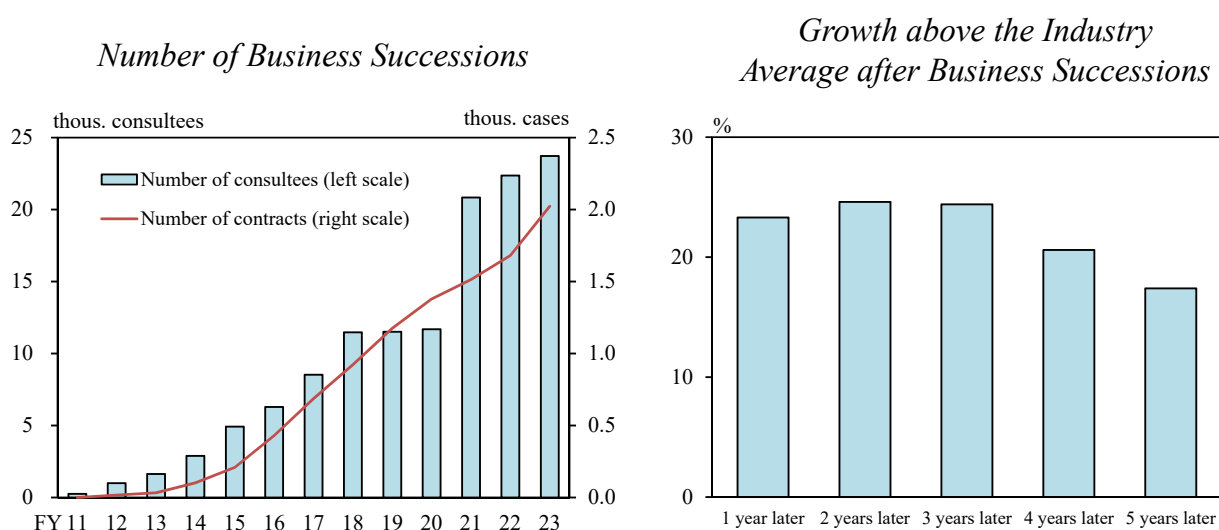


Chart 21

## Progress in Structural Reforms by Small and Medium-Sized Firms



Notes: 1. The left panel shows the number of consultees and the number of contracts concluded at the Business Successions Support Center.

2. The right panel shows the difference of the net income growth rate between the industry average and the average of firms that underwent a change in management between 2010 and 2015, in the first five years after the business succession.

Sources: Organization for Small & Medium Enterprises and Regional Innovation, JAPAN; Small and Medium Enterprise Agency, 2021 White Paper on Small and Medium Enterprises in Japan.

# Dynamism of Households

