

Japan's Economy and Monetary Policy

Speech at a Meeting with Local Leaders in Hakodate

August 7, 2024

UCHIDA Shinichi

Deputy Governor of the Bank of Japan

Introduction

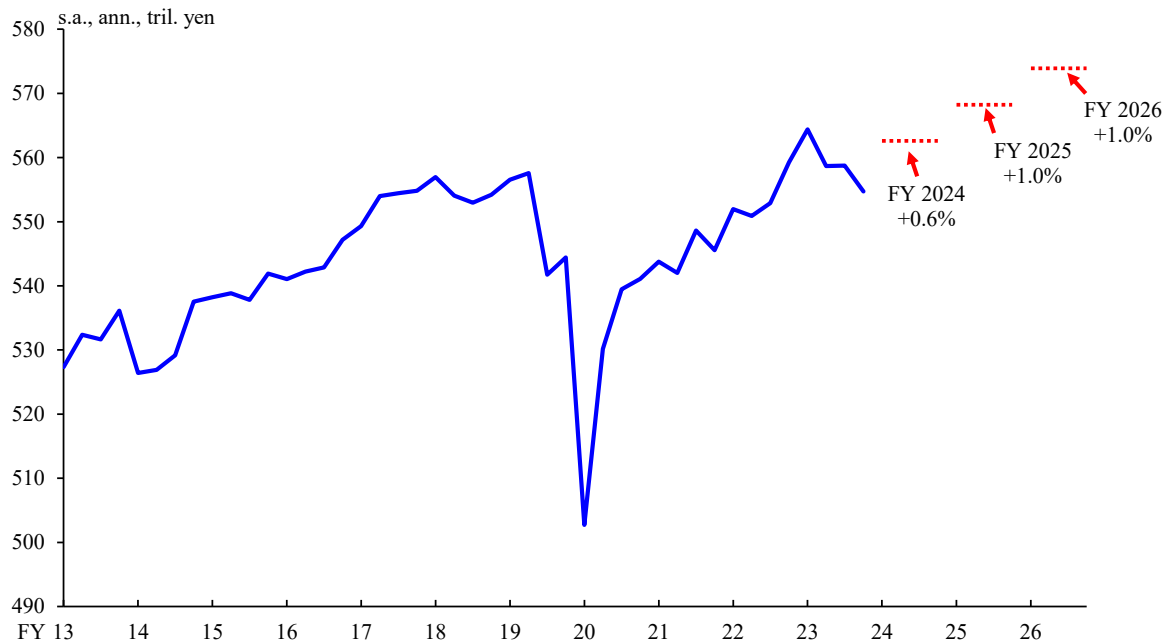
I. Economic Developments

II. Price Developments and Structural
Changes in the Labor Market

III. The Bank's Conduct of Monetary Policy

IV. Recent and Future Economic Activity in
Southern Hokkaido

The BOJ's Forecasts for Real GDP (July 2024 Outlook Report)

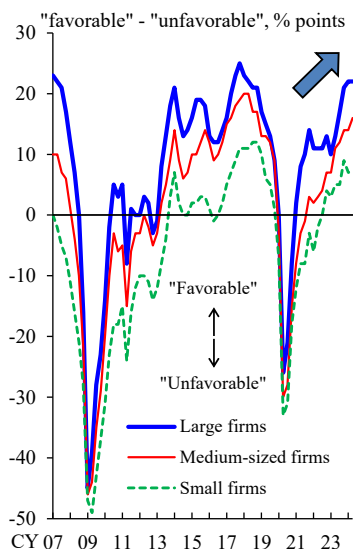


Note: The forecasts presented are the medians of the Policy Board members' forecasts. The values of real GDP for fiscal 2024 onward are calculated by multiplying the actual figure for fiscal 2023 by all successive projected growth rates for each year.
Sources: Cabinet Office; Bank of Japan.

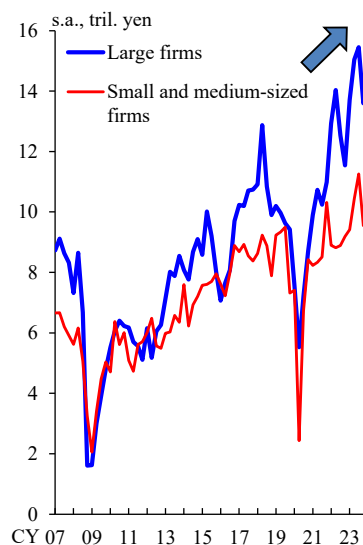
1

Corporate Sector

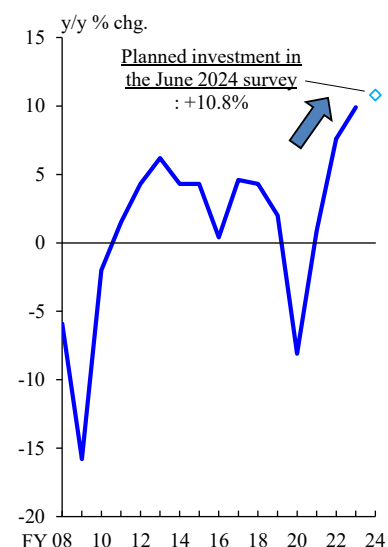
Business Conditions DI



Corporate Profits



Business Fixed Investment



Notes: 1. In the left-hand chart, figures are based on the *Tankan*.

2. In the middle chart, figures are current profits 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.

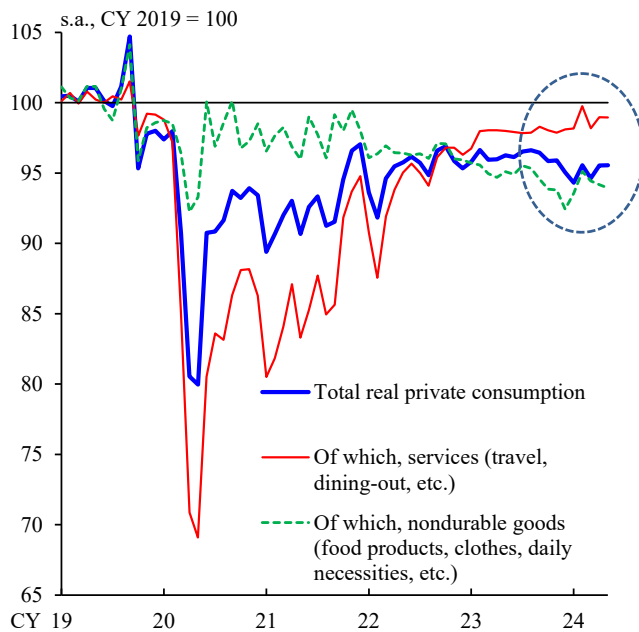
3. In the right-hand chart, figures are based on the *Tankan*, including software and R&D investments and excluding land purchasing expenses. R&D investment is not included before the March 2017 survey. Figures are for all industries including financial institutions.

Sources: Bank of Japan; Ministry of Finance.

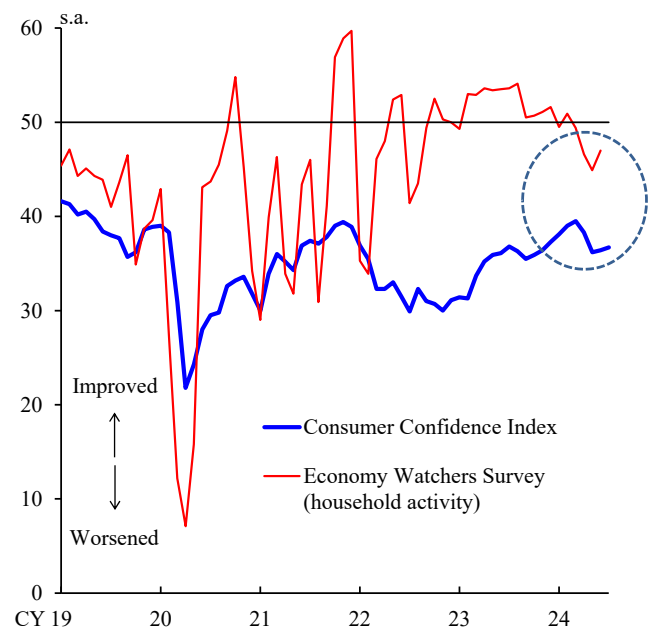
2

Household Sector

Private Consumption



Confidence Indicators



Notes: 1. In the left-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.

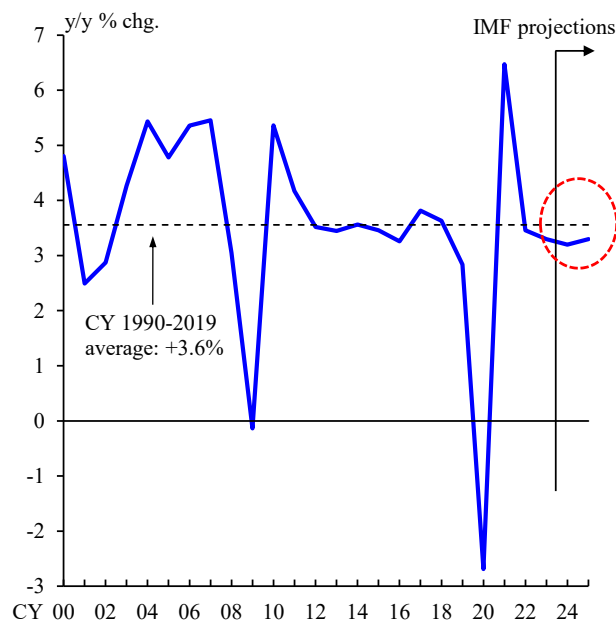
2. In the right-hand chart, figures for the *Economy Watchers Survey* are those for the current economic conditions DI.

Sources: Bank of Japan; Cabinet Office.

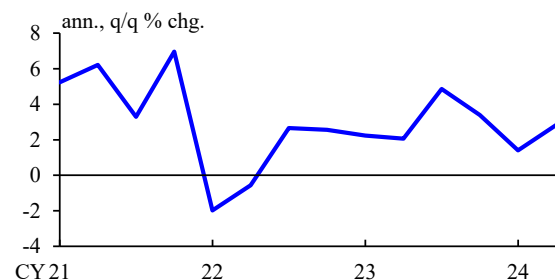
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Overseas Economies

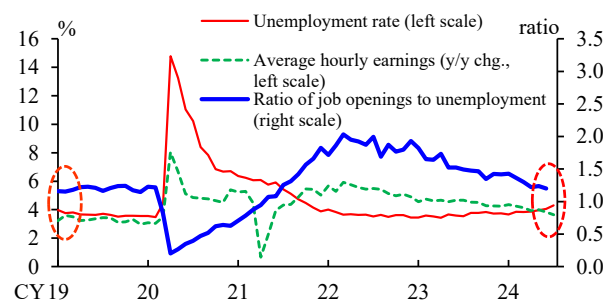
IMF Projections in the World Economic Outlook Update



Real GDP Growth in the United States



Labor Market in the United States

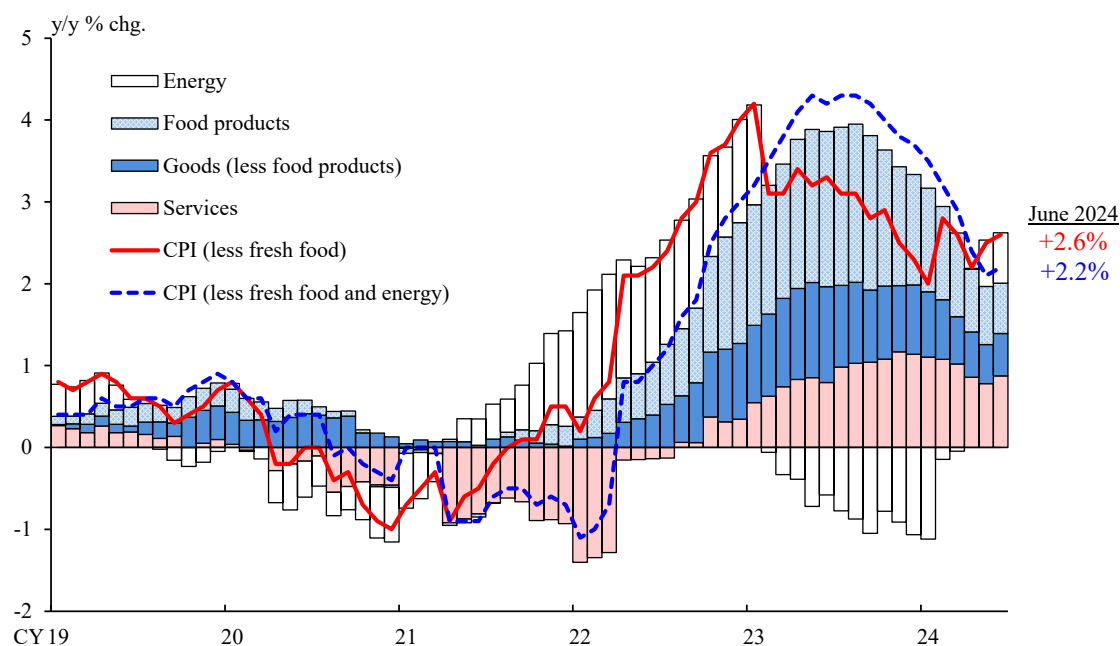


Note: In the left-hand chart, IMF projections are those as of July 2024.

Sources: IMF; Haver.

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Consumer Prices



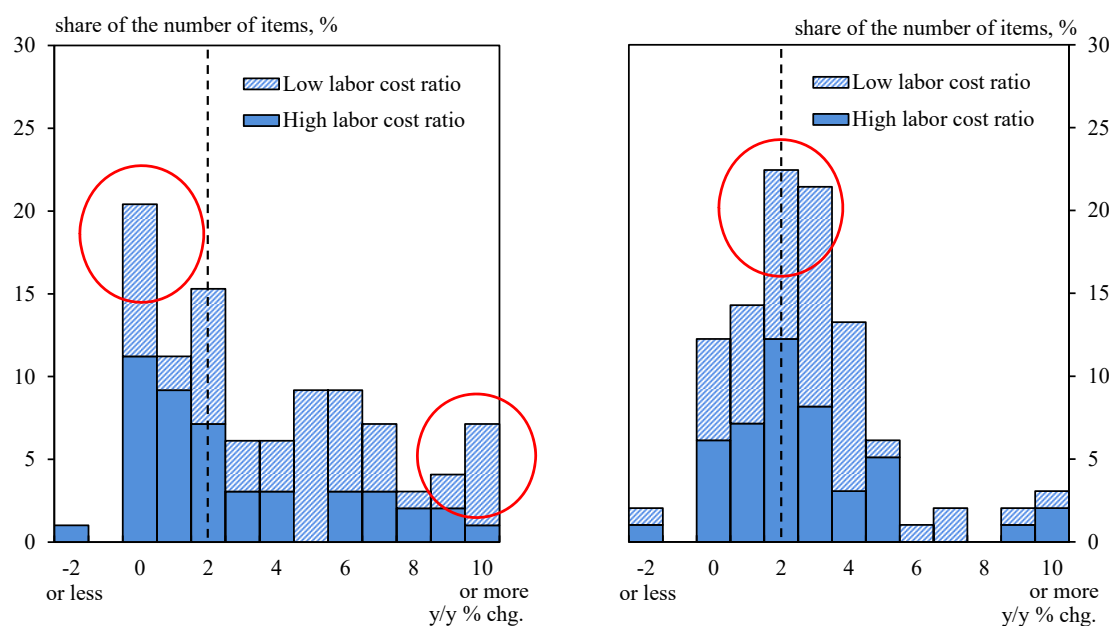
Source: Ministry of Internal Affairs and Communications.

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Services Prices by Item

1. April 2023

2. April 2024



Notes: 1. Figures show the CPI for general services (less housing rent). Figures are staff estimates and exclude the effects of policies concerning the provision of free education and the effects of travel subsidy programs.

2. CPI items are matched to the items in the 2015 Input-Output Tables for Japan and grouped in terms of the share of "wages and salaries" and other labor costs in the domestic output of those items. Figures for items with a high (low) labor cost ratio are for items that fall into the top (bottom) 50 percent in general services (less housing rent).

Source: Ministry of Internal Affairs and Communications.

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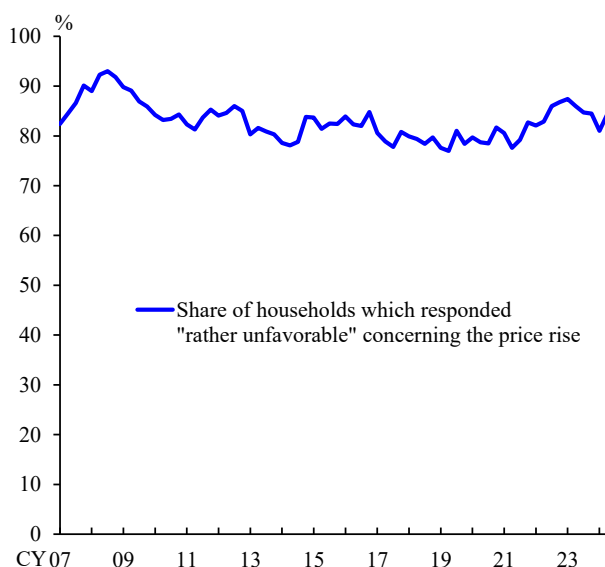
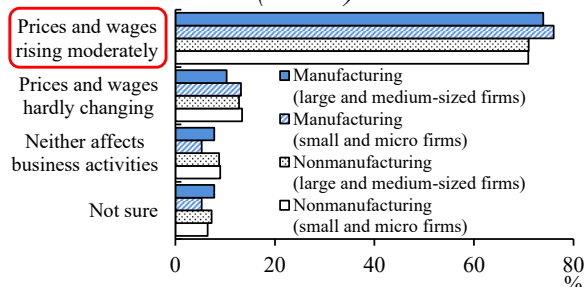
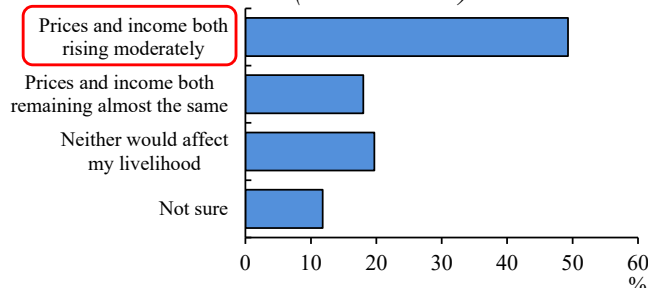
Forecasts for the CPI

	y/y chg.		
	FY 2024	FY 2025	FY 2026
All items less fresh food	+2.5%	+2.1%	+1.9%
(Reference) All items less fresh food and energy	+1.9%	+1.9%	+2.1%

Note: Figures are the medians of the Policy Board members' forecasts in the July 2024 Outlook Report.
Source: Bank of Japan.

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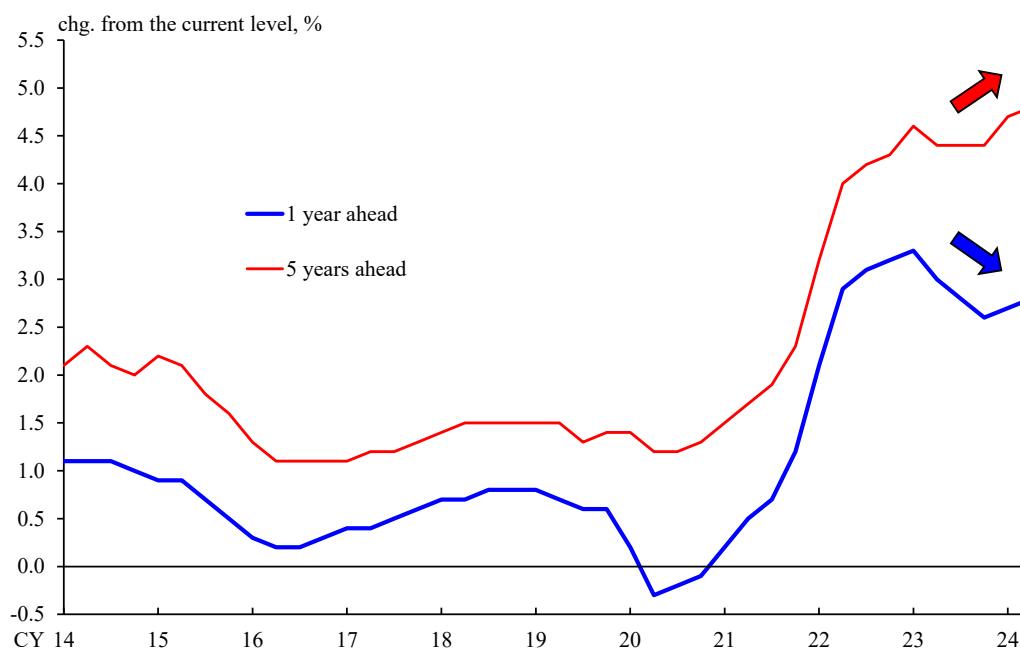
Perception of Wages and Prices

Opinions of the Current Price Rise
(Households)Preferred State for Prices and Wages
(Firms)Preferred State for Prices and Income
(Households)

Note: In the left-hand and lower right-hand charts, figures are from the *Opinion Survey on the General Public's Views and Behavior* (those in the lower right-hand chart are from the March 2024 survey). In the upper right-hand chart, figures are from the annex paper to the *Regional Economic Report*, "Results of the Survey regarding Corporate Behavior since the Mid-1990s."
Source: Bank of Japan.

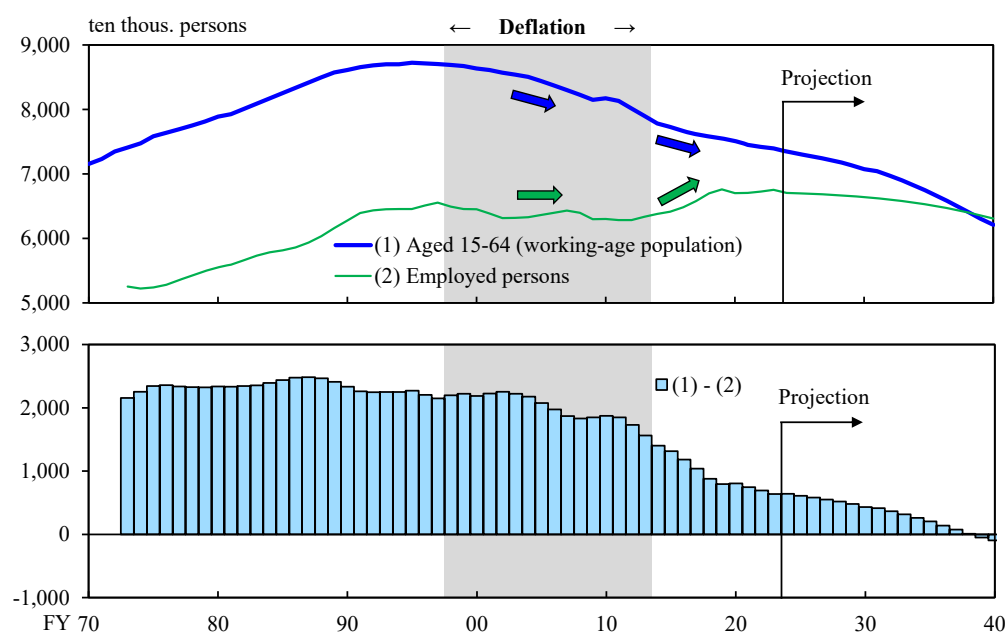
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Firms' Outlook for Output Prices



Note: Based on the *Tankan*.
Source: Bank of Japan.

Labor Market



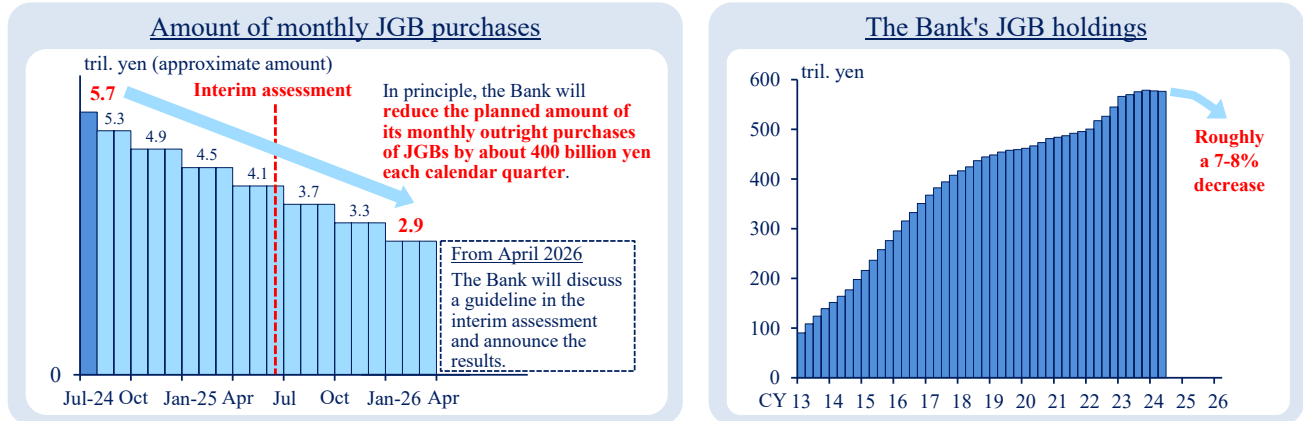
Note: The projection for the working-age population is by the National Institute of Population and Social Security Research. The projection for the number of employed persons is calculated based on projections by the Japan Institute for Labour Policy and Training.
Sources: Ministry of Internal Affairs and Communications; National Institute of Population and Social Security Research; Japan Institute for Labour Policy and Training.

Plan for the Reduction of the Purchase Amount of JGBs

The concept of the plan for the reduction until March 2026

1. Long-term interest rates: to be formed in financial markets in principle
2. JGB purchases: appropriate for the Bank to **reduce its purchase amount of JGBs in a predictable manner**, while **allowing enough flexibility** to support stability in the JGB markets

Reduction in a Predictable Manner



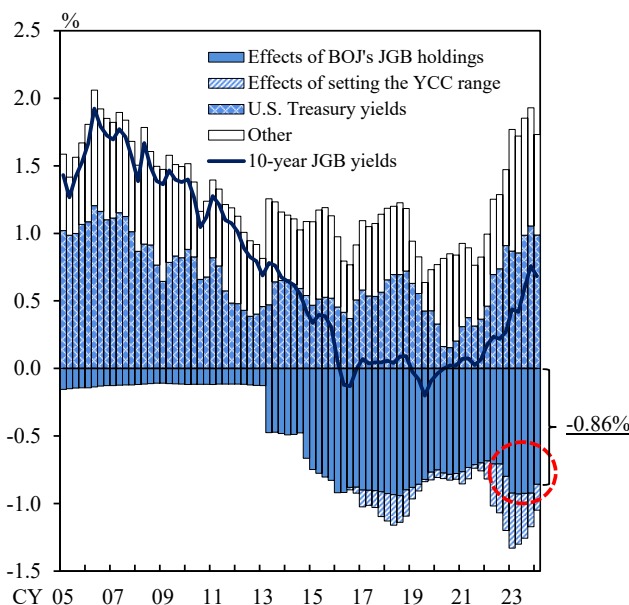
Allowing Enough Flexibility

1. The Bank will **conduct an interim assessment of the plan at the June 2025 MPM.**
2. In the case of a rapid rise in long-term interest rates, the Bank will make nimble responses by, for example, increasing the amount of JGB purchases.
3. The Bank is prepared to amend the plan at the MPMs, if deemed necessary.

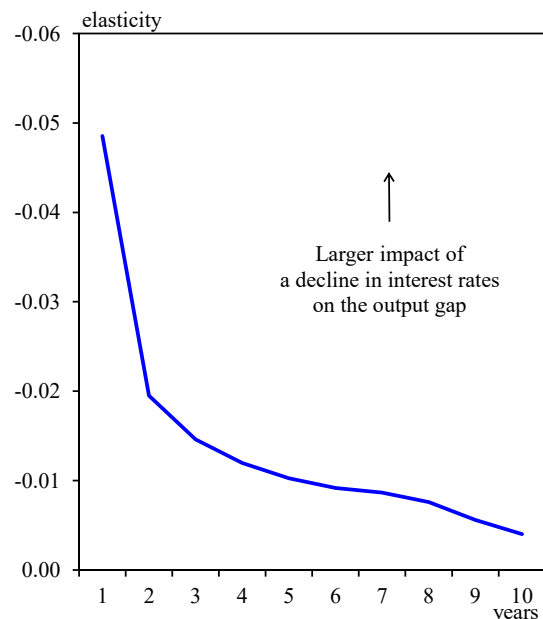
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Effects of the BOJ's JGB Purchases

Sources of Changes in 10-Year JGB Yields



Effects of a Decline in Interest Rates on the Output Gap, by Maturity



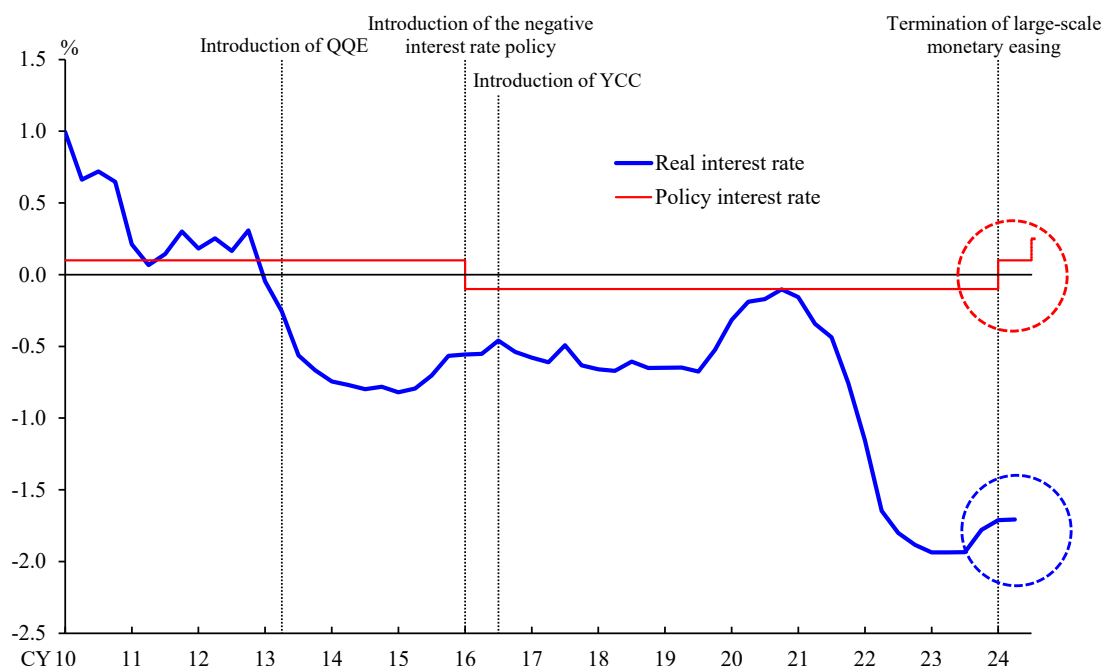
Notes: 1. For details of the methodology, see Box 6 of the April 2024 Outlook Report.

2. For details of the methodology, see Appendix 8 in the *Comprehensive Assessment* released in September 2016. The chart shows the updated results in the April 2024 Outlook Report.

Source: Bank of Japan, "Outlook for Economic Activity and Prices (April 2024)."

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Real Short-Term Interest Rate (1-Year)



Notes: 1. Figures for the policy interest rate are the target level (or the upper bound of the target range) of the uncollateralized overnight call rate, except for the period when this rate was not an operating target. For the period from the introduction of QQE to the introduction of the negative interest rate policy, figures are for the interest rate applied to excess reserves. For the period from the introduction of the negative interest rate policy to the termination of large-scale monetary easing, figures are for the interest rate applied to the Policy-Rate Balances.

2. Figures for the real interest rate are calculated as government bond yields (1-year) minus the composite index of inflation expectations (staff estimates).

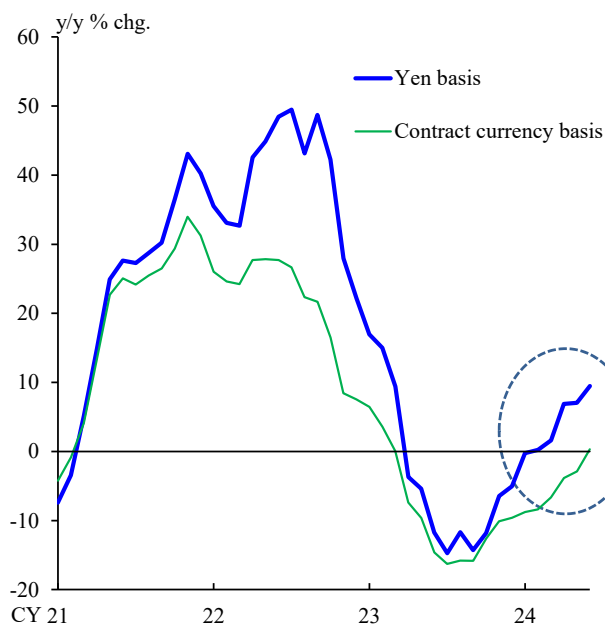
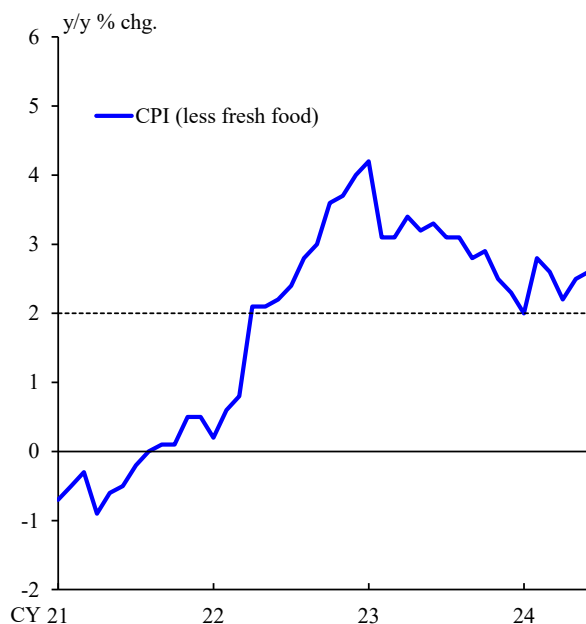
Sources: Bank of Japan; QUICK, "QUICK Monthly Market Survey <Bonds>"; Consensus Economics Inc., "Consensus Forecasts"; Bloomberg.

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Consumer Prices and Import Prices

CPI

Import Price Index

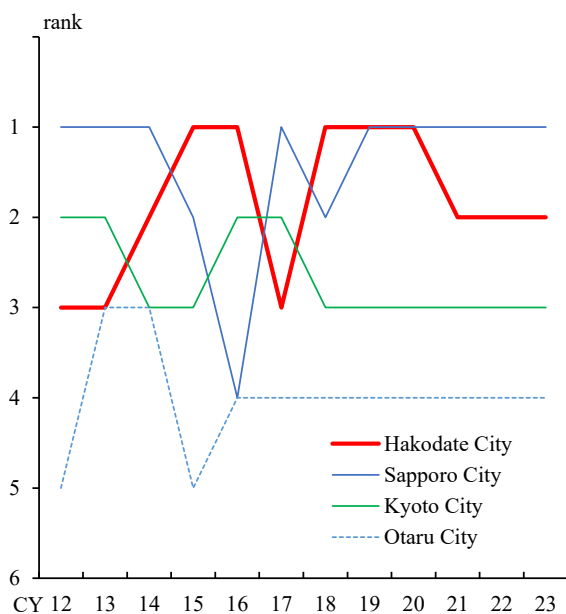


Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

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Economic Activity in Hakodate City

Places to Visit



Sightseeing Spots in Hakodate

Hachiman-Zaka Slope



Goryokaku Park



Night View from Mt. Hakodate



Note: In the left-hand chart, figures indicate the tourism attractiveness ranking by municipality in the *Chiiki burando chōsa*, a survey by the Brand Research Institute, Inc.
Sources: Brand Research Institute, Inc.; Travel Hakodate.