



Economic Activity, Prices, and Monetary Policy in Japan

Speech at a Meeting with Local Leaders in Nagasaki

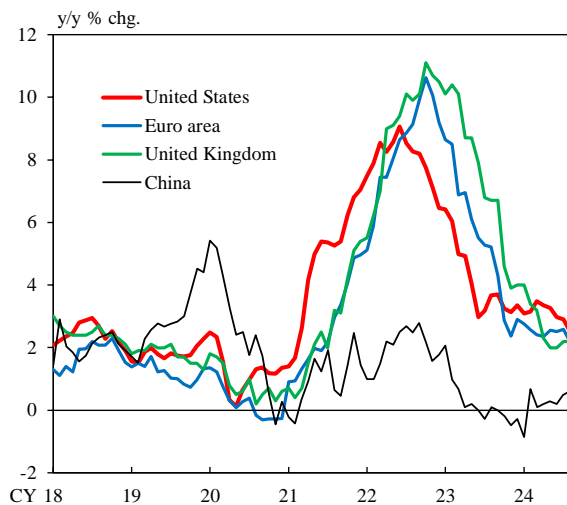
October 3, 2024

NOGUCHI Asahi
Member of the Policy Board
Bank of Japan

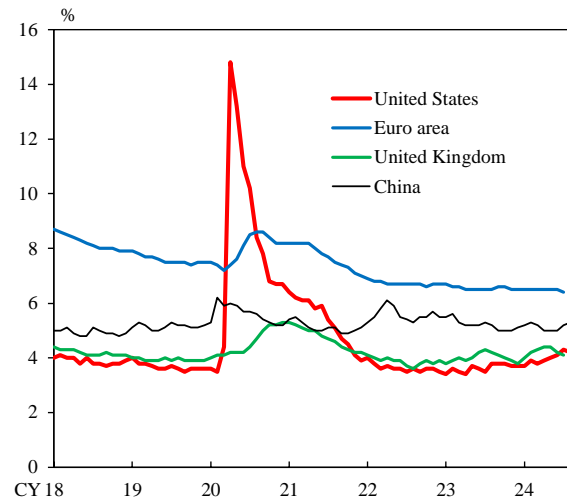
Chart 1

Overseas Economies

CPI



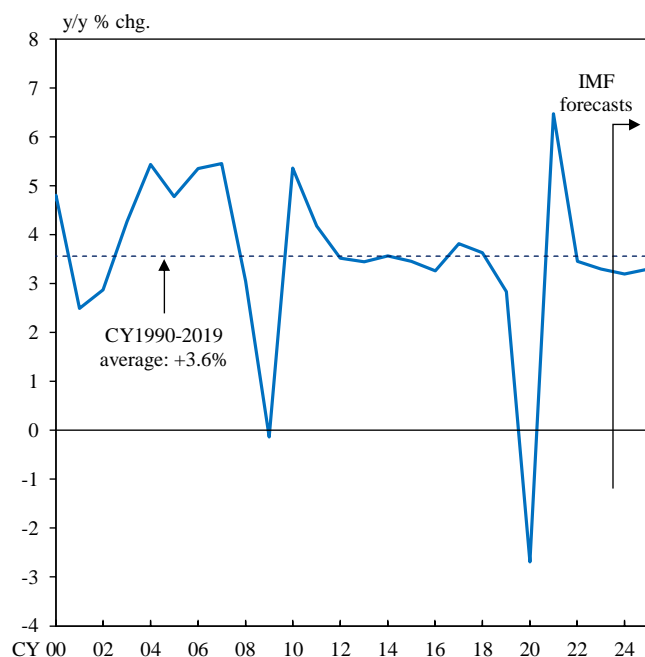
Unemployment Rate



Note: Figures for the CPI are for all items.
Sources: BLS; Eurostat; NBSC; ONS.

IMF Forecasts for Global Growth

Global Growth Rate



Note: Figures are as of July 2024.

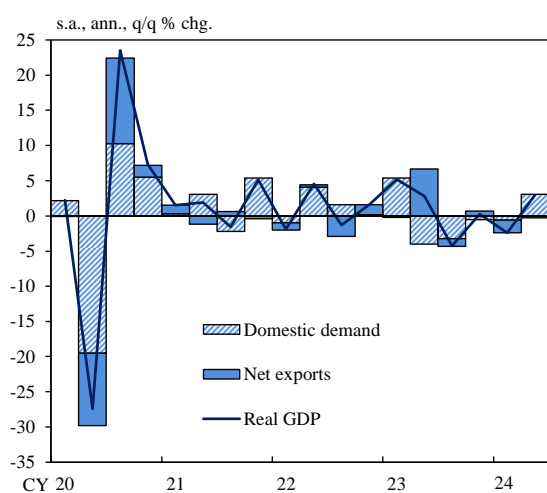
Source: IMF.

Major Economies' Growth Rates

	y/y % chg.		
	CY 2023	CY 2024 [Forecast]	CY 2025 [Forecast]
World	3.3	3.2	3.3
Advanced economies	1.7	1.7	1.8
United States	2.5	2.6	1.9
Euro area	0.5	0.9	1.5
United Kingdom	0.1	0.7	1.5
Japan	1.9	0.7	1.0
Emerging market and developing economies	4.4	4.3	4.3
China	5.2	5.0	4.5
India	8.2	7.0	6.5
ASEAN-5	4.1	4.5	4.6

Real GDP

Annualized Quarterly Growth Rate



Quarter-on-Quarter Changes

	2023			2024	
	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	Apr.-Jun.
GDP	0.7	-1.1	0.1	-0.6	0.7
Domestic demand	-1.0	-0.8	-0.1	-0.1	0.8
Private demand	-1.0	-1.1	0.0	-0.2	0.7
Private consumption	-0.8	-0.3	-0.3	-0.6	0.9
Private residential investment	1.4	-1.2	-1.1	-2.6	1.7
Private non-resi. investment	-2.0	-0.2	2.1	-0.5	0.8
Public demand	-0.9	0.1	-0.4	0.1	0.8
Exports of goods & services	3.2	0.1	3.0	-4.6	1.5
Imports of goods & services	-4.1	1.3	2.0	-2.5	1.7

Source: Cabinet Office.

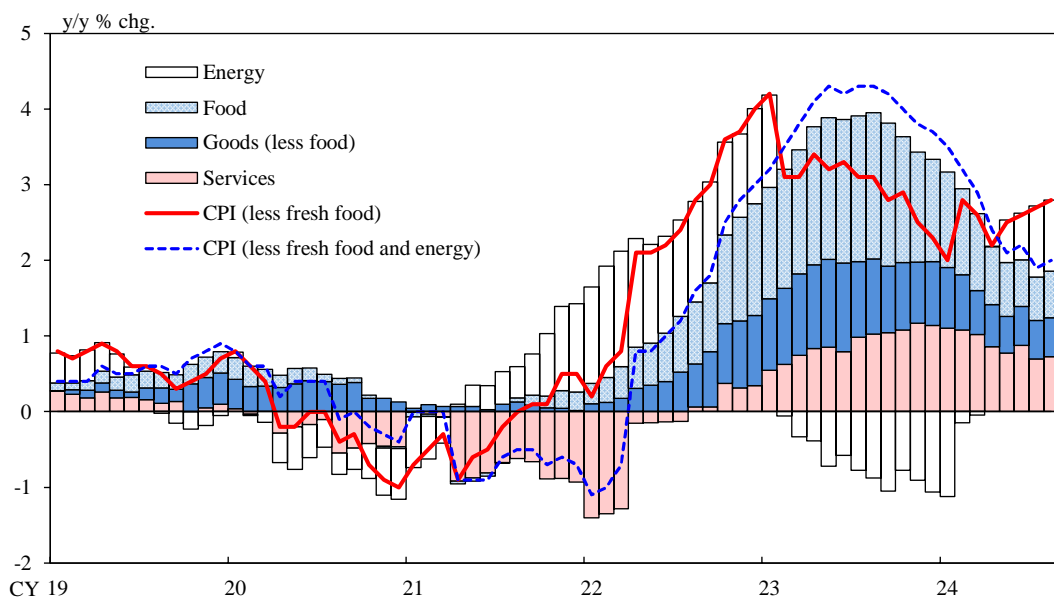
Wage Growth



Note: Figures for the CPI are for all items excluding imputed rent.

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

Consumer Prices

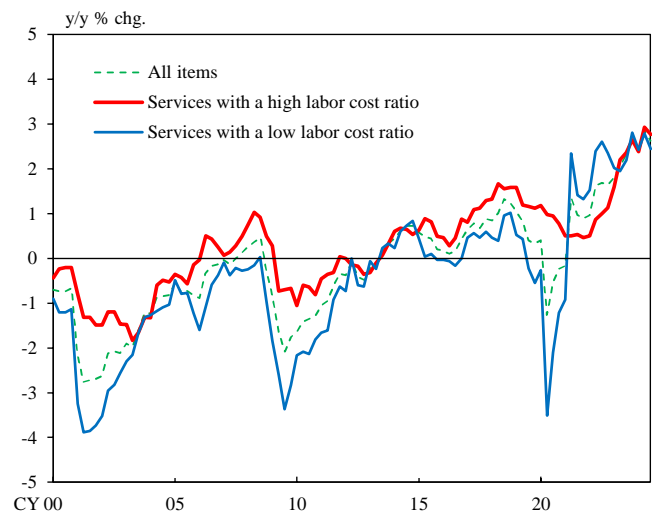
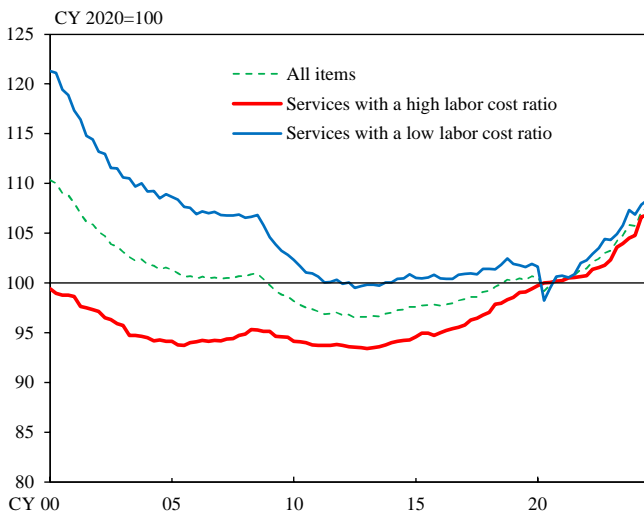


Source: Ministry of Internal Affairs and Communications.

Services Producer Prices

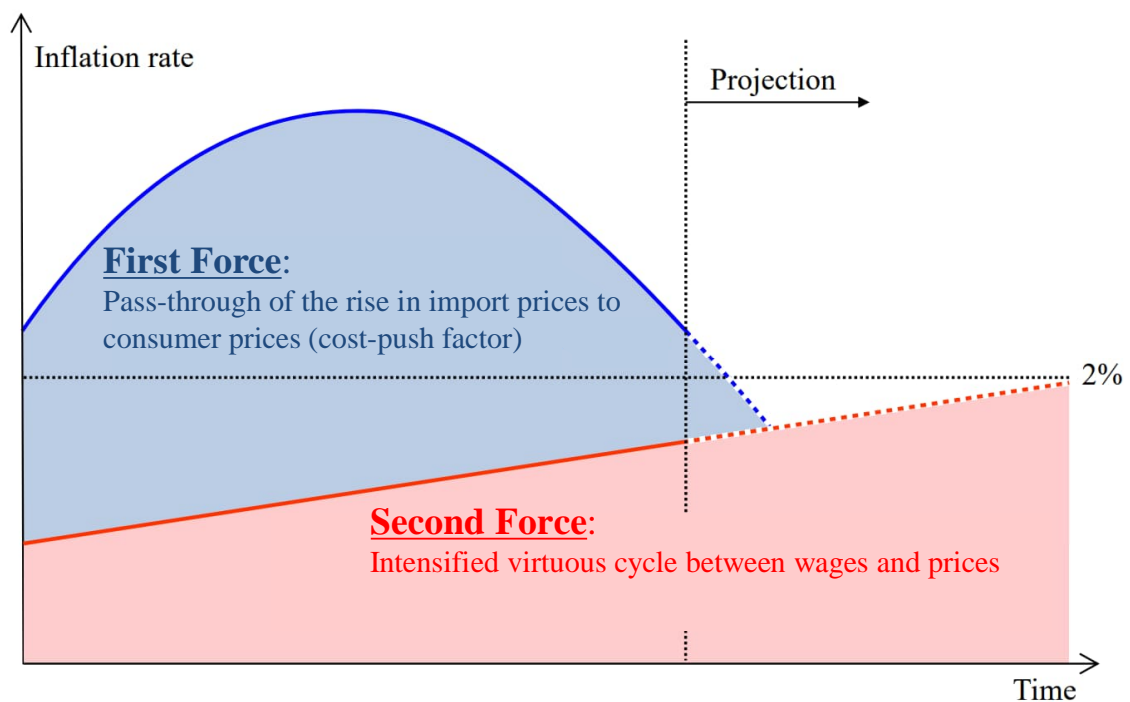
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Year-on-Year Changes



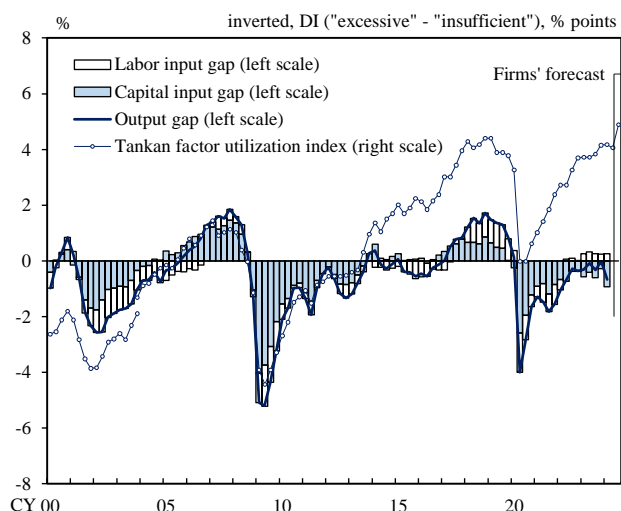
Note: Figures exclude the effects of consumption tax hikes.
Source: Bank of Japan.

Two Forces Acting to Raise Inflation

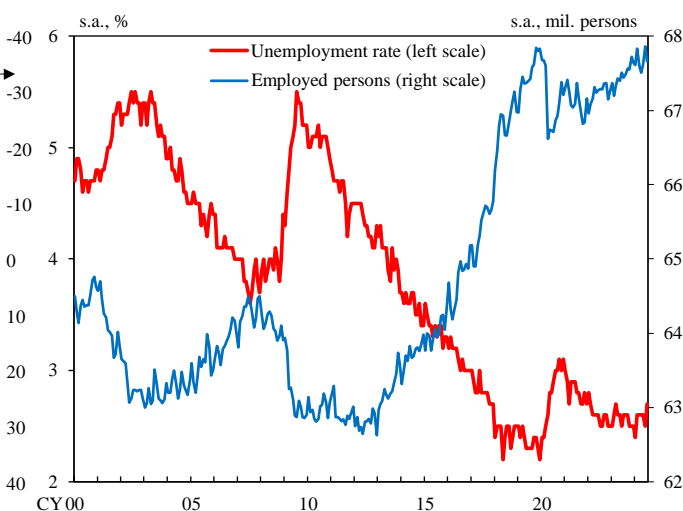


Domestic Economy

Output Gap



Unemployment Rate and Number of Employed Persons



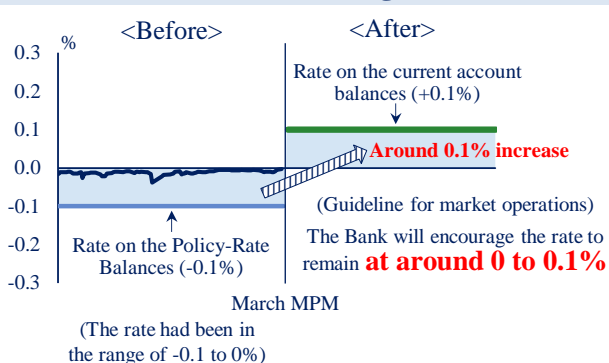
Note: Figures for the output gap are Bank staff estimates. The *Tankan* factor utilization index is calculated as the weighted average of the production capacity DI and the employment conditions DI for all industries and enterprises. The capital and labor shares are used as weights. There is a discontinuity in the data for December 2003 due to a change in the survey framework.

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

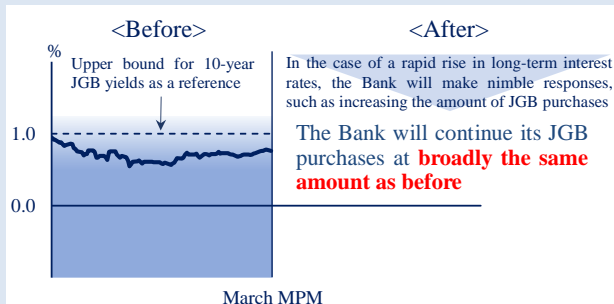
Changes in the Monetary Policy Framework (March 2024)

- 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 was now within sight that the price stability target of 2 percent would be achieved in a sustainable and stable manner** toward the end of the projection period of the January 2024 Outlook Report. 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.

Short-term interest rate (uncollateralized overnight call rate)



Long-term interest rates



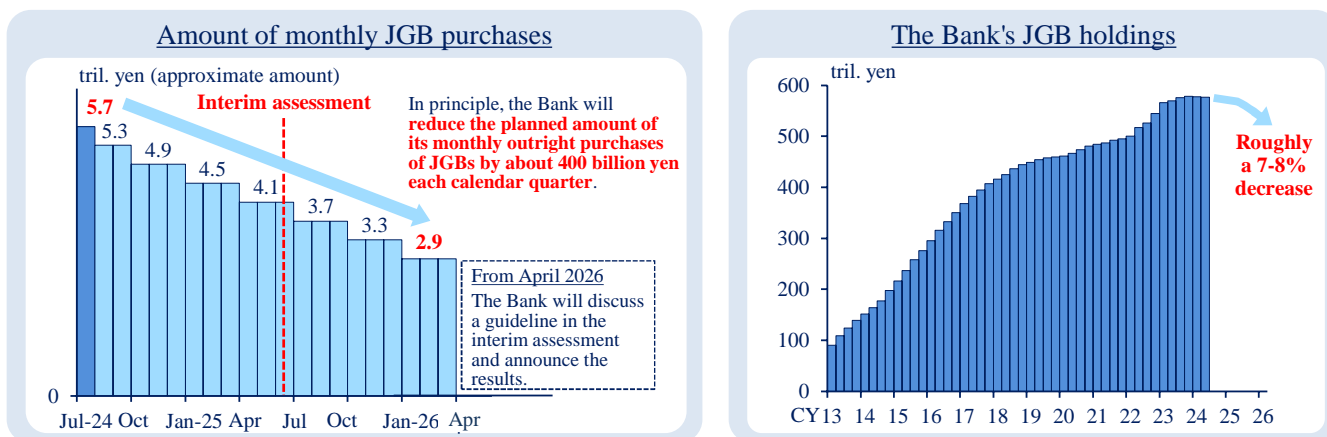
ETFs and J-REITs The Bank will discontinue purchases

Plan for Reduction of Purchase Amount of JGBs (July 2024)

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

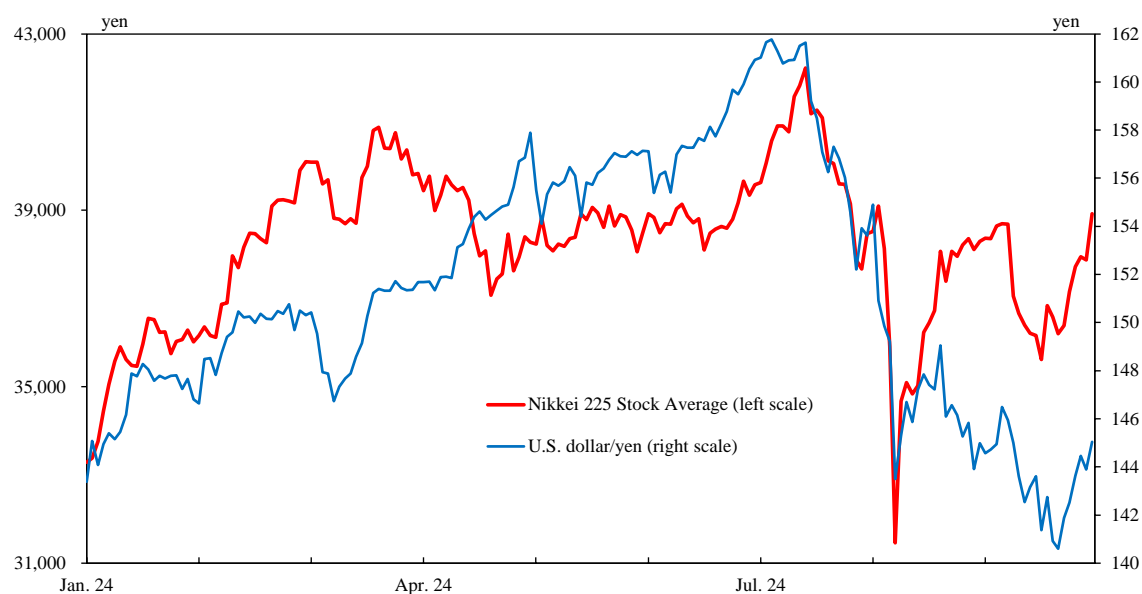
Reduction in a Predictable Manner



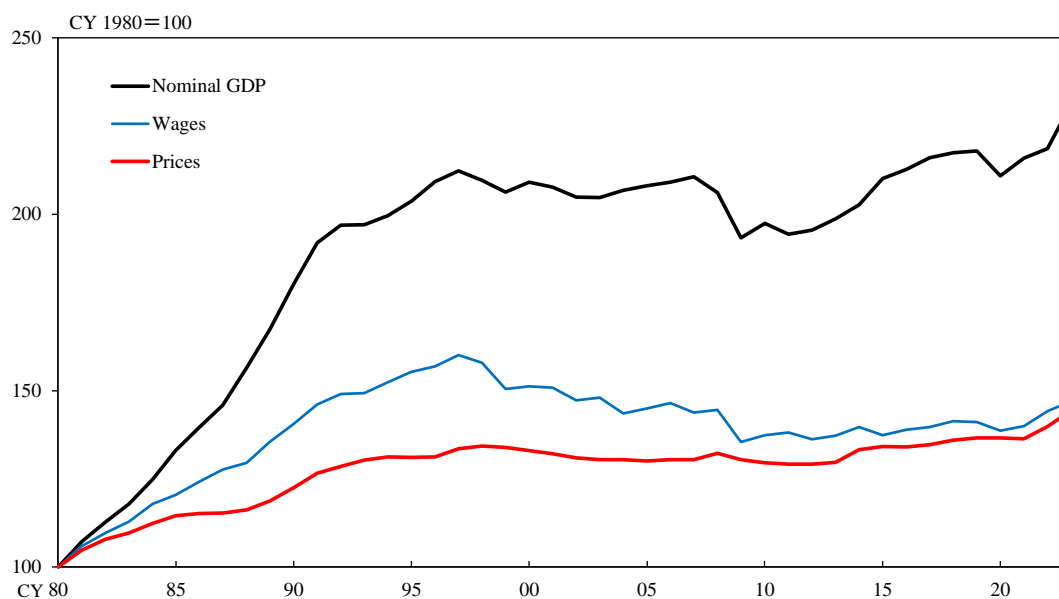
Allowing Enough Flexibility

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.

Nikkei 225 Stock Average and U.S. Dollar/Yen Exchange Rates

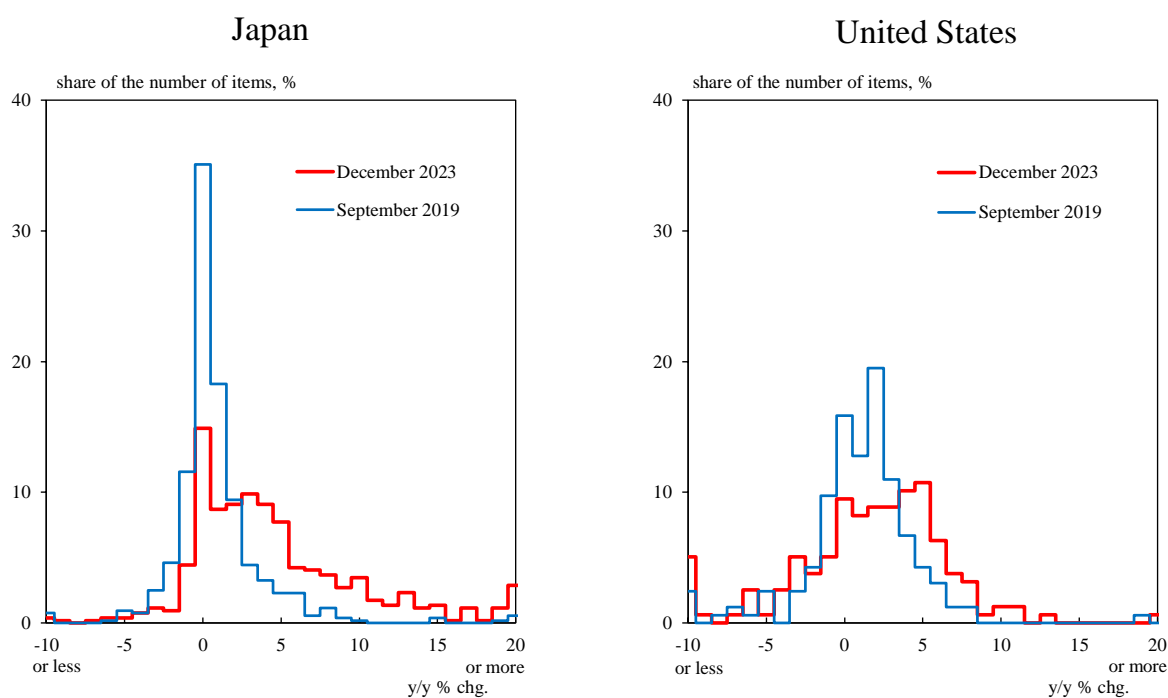


Nominal GDP, Wages, and Prices



Notes: 1. Figures for wages are based on average monthly cash earnings per regular employee (establishments with 30 employees or more).
2. Figures for prices are the CPI for all items.
Sources: Cabinet Office; Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

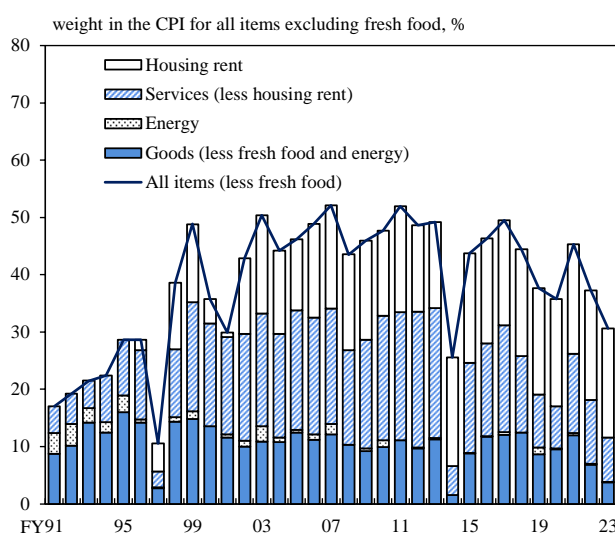
Distribution of Consumer Price Changes



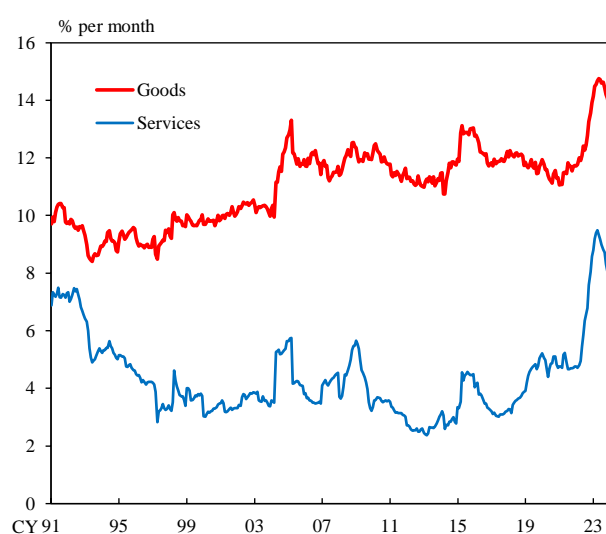
Note: Figures for Japan are based on items excluding fresh food and energy. Those for the United States are based on items excluding energy.
Sources: BLS; Ministry of Internal Affairs and Communications.

Price Revisions

Share of Items for Which Prices Were Unchanged



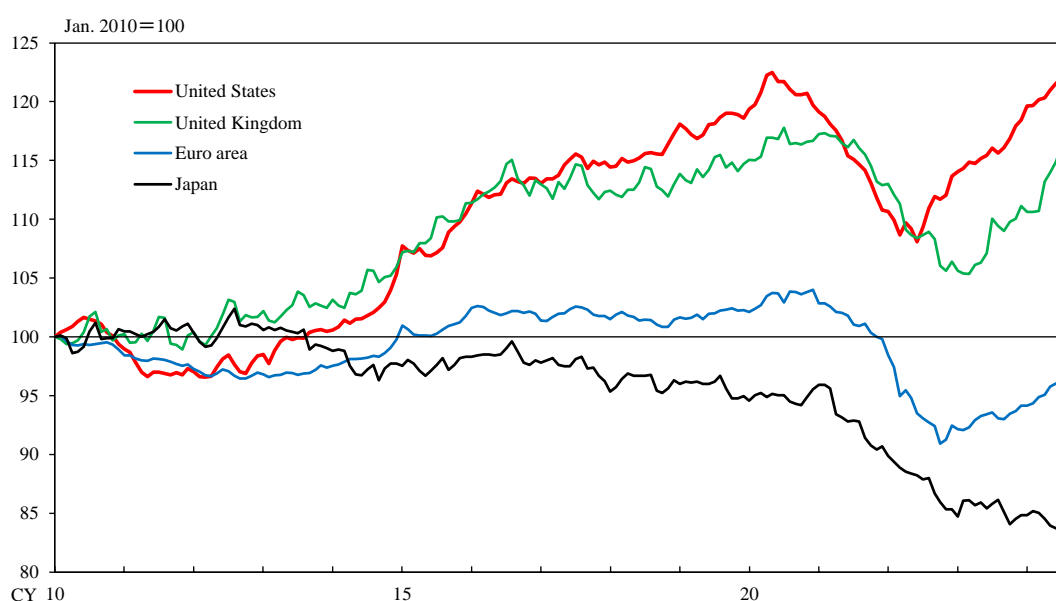
Frequency of Price Revisions



- Notes: 1. In the left panel, figures are the share of items for which year-on-year price changes were within plus or minus 0.5 percent.
 2. In the right panel, figures are calculated based on the proportion of cities where the average price of individual items changed from the previous month (12-month backward moving averages). Data exclude fresh food, electricity, manufactured and piped gas, water charges, and housing rent. Temporary price changes due to, for example, consumption tax hikes and special sales are not incorporated.

Source: Ministry of Internal Affairs and Communications.

Ratio of Services Prices to Goods Prices

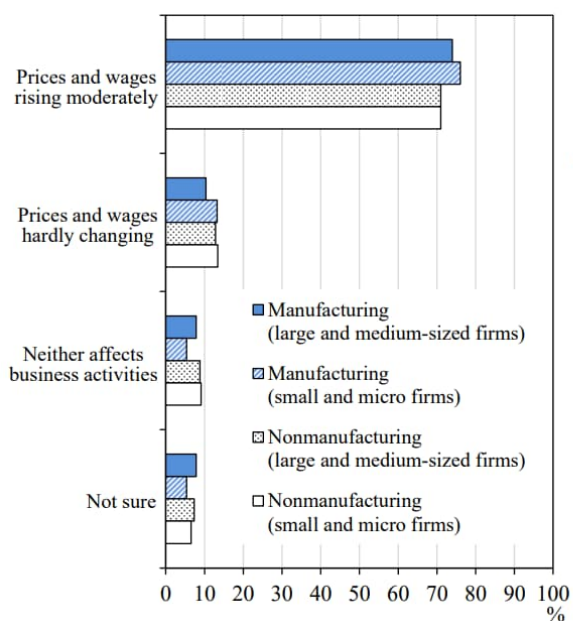


Note: Figures for the euro area exclude owner-occupied housing costs.

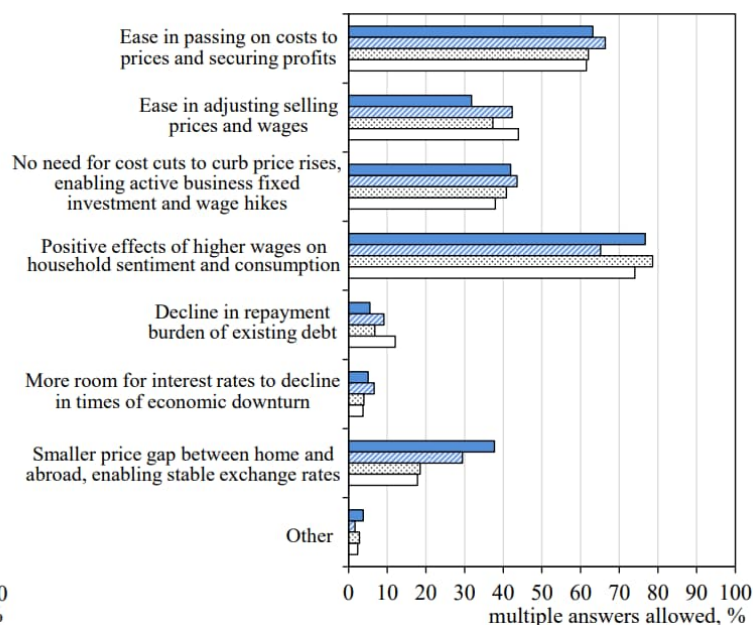
Sources: BLS; Eurostat; Ministry of Internal Affairs and Communications; ONS.

Firms' Views on Price and Wage Increases: *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 panel, figures are ratios among firms that responded "prices and wages rising moderately" as a preferable state in the left panel.

Source: Bank of Japan.