



Economic Activity, Prices, and Monetary Policy in Japan

Speech at a Meeting with Local Leaders in Kagawa

October 16, 2024

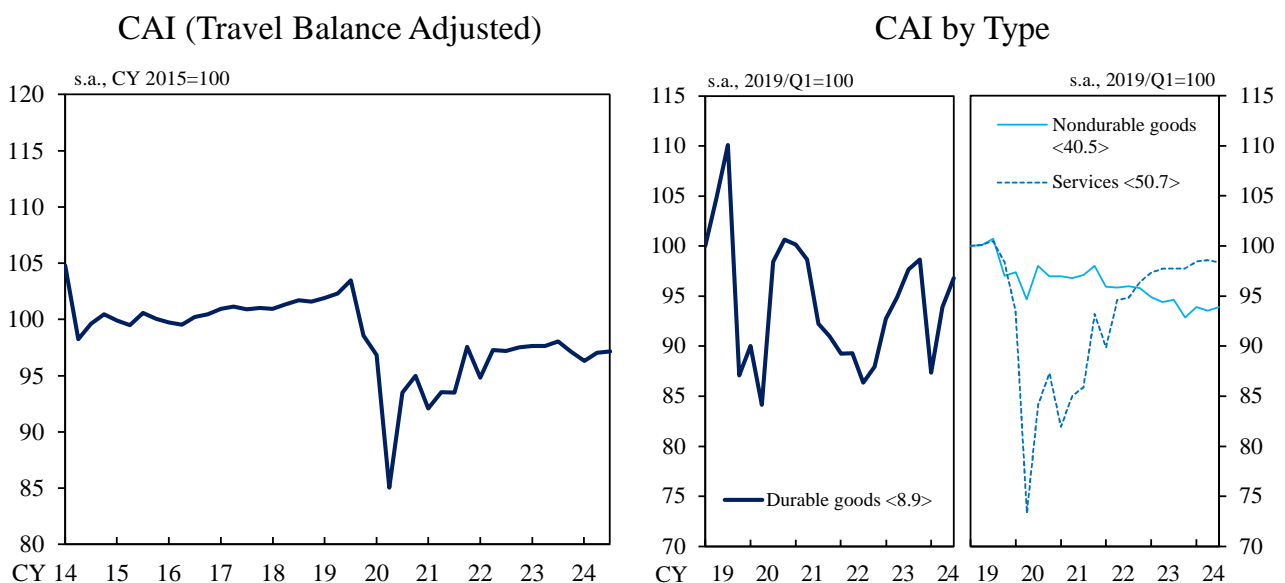
ADACHI Seiji

Member of the Policy Board

Bank of Japan

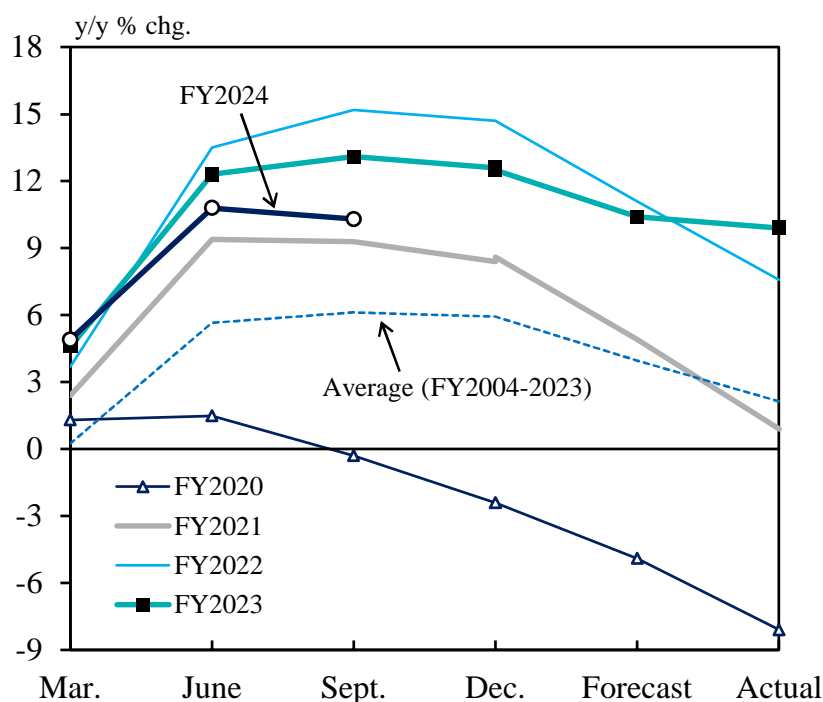
Chart 1

Consumption Activity Index (CAI, Real)



Notes: 1. In the left panel, figures exclude inbound tourism consumption and include outbound tourism consumption, and are based on Bank staff calculations.
2. In the right panel, figures in angle brackets show the weights in the CAI. Figures are based on Bank staff calculations.
3. In the right panel, nondurable goods include goods classified as semi-durable goods in the SNA.
4. Figures for 2024/Q3 are July-August averages.
Sources: Bank of Japan; etc.

Developments in Business Fixed Investment Plans



Notes: 1. Based on the *Tankan*. All industries including financial institutions.

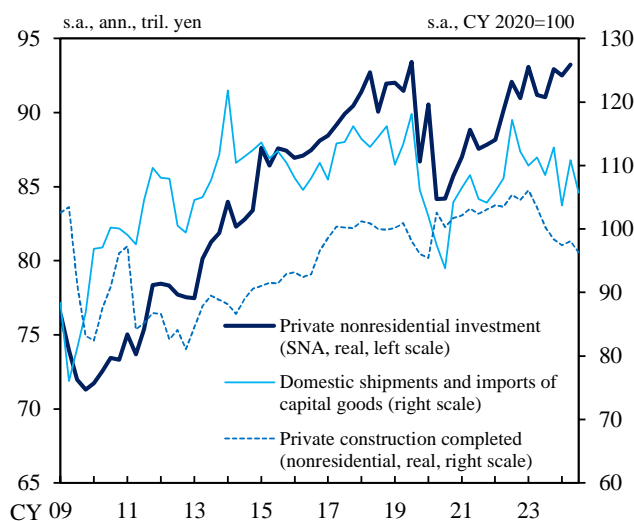
2. Figures include software and R&D investments but exclude land purchasing expenses. R&D investment is not covered as a survey item before the March 2017 survey.

3. There are discontinuities in the data for December 2021 and December 2023 due to changes in the survey sample.

Source: Bank of Japan.

Business Fixed Investment

Coincident Indicators of Business Fixed Investment

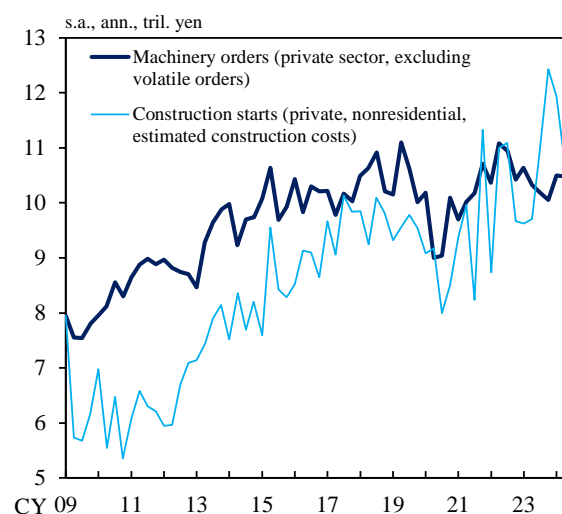


Notes: 1. The figure for domestic shipments and imports of capital goods for 2024/3Q is the July-August average. The figure for private construction completed for 2024/3Q is for July.

2. Figures for real private construction completed are based on Bank staff calculations using the construction cost deflators.

Sources: Cabinet Office; Ministry of Economy, Trade and Industry; Ministry of Land, Infrastructure, Transport and Tourism.

Leading Indicators of Business Fixed Investment

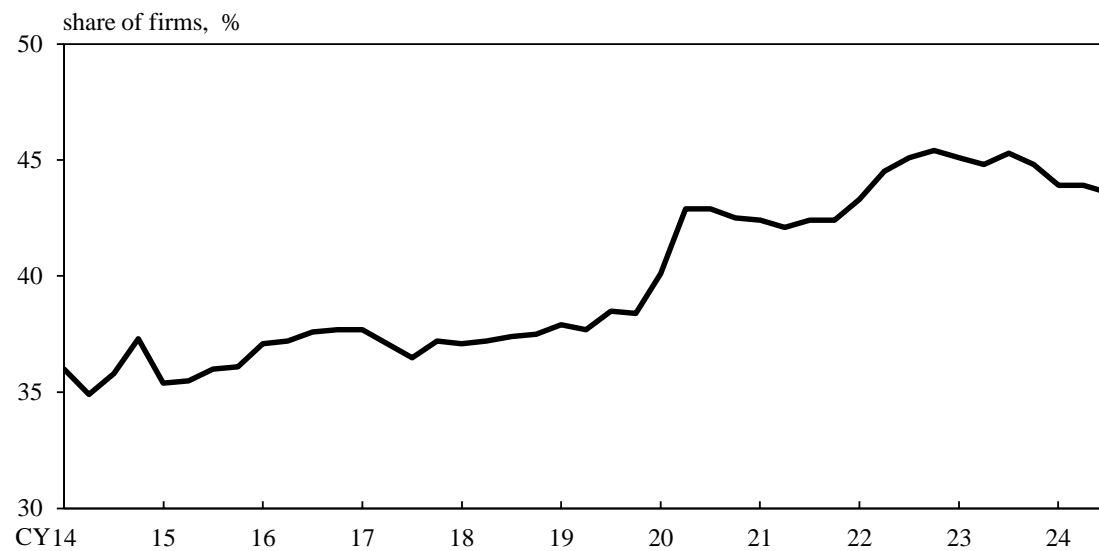


Notes: 1. Volatile orders are orders for ships and those from electric power companies.

2. The figure for machinery orders for 2024/3Q is for July. The figure for construction starts for 2024/3Q is the July-August average.

Sources: Cabinet Office; Ministry of Land, Infrastructure, Transport and Tourism.

Firms' Inflation Outlook for General Prices



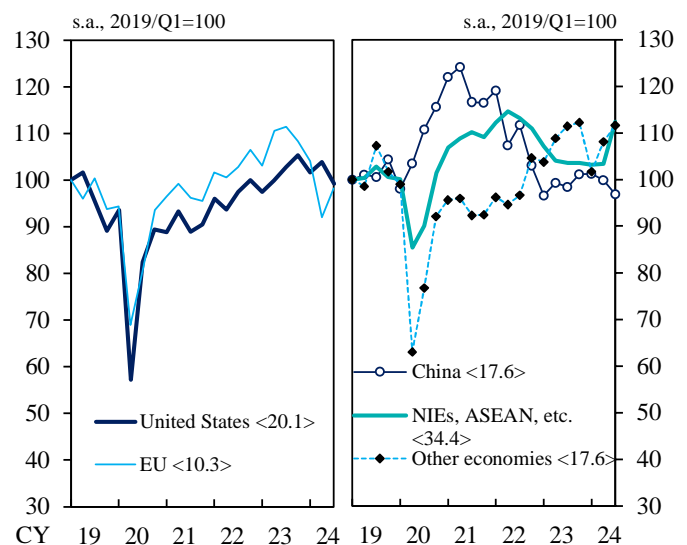
Notes: 1. Figures show the share of firms having no clear views on general prices due to high uncertainty over the outlook, based on the inflation outlook for general prices (all industries and enterprises, 5 years ahead) in the *Tanken*.
 2. Specifically, when asked about their inflation outlook, firms are those that selected "Uncertainty" among firms responding that they "do not have clear views" on general prices in the *Tanken*.
 Source: Bank of Japan.

Exports

Total Real Exports

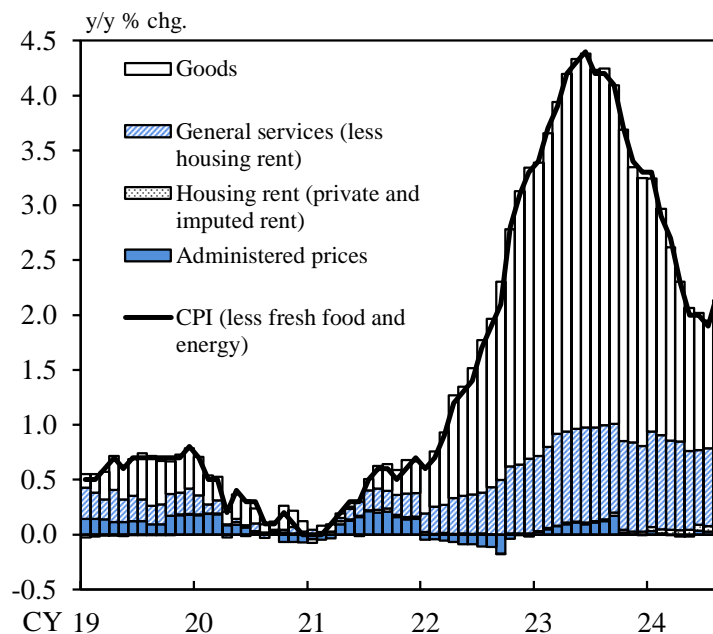


Real Exports by Region



Notes: 1. Based on Bank staff calculations.
 2. Figures for 2024/Q3 are July-August averages.
 3. In the right panel, figures in angle brackets show the share of each country or region in Japan's total exports in 2023. Figures for the EU exclude those for the United Kingdom for the entire period.
 Sources: Ministry of Finance; Bank of Japan.

CPI (Excluding Temporary Factors)



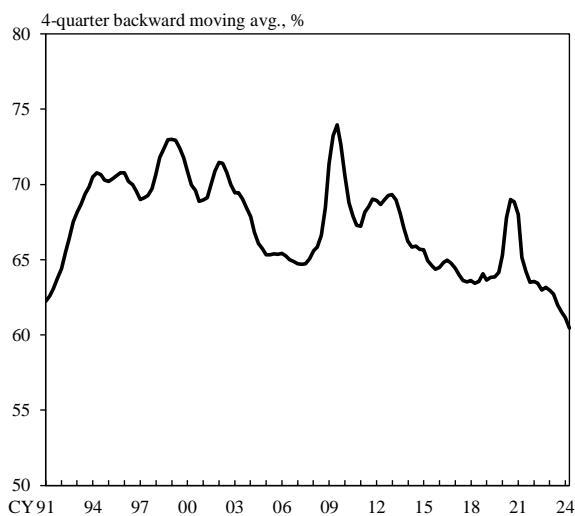
Notes: 1. Administered prices exclude energy prices and consist of public services and water charges.

2. The CPI figures are Bank staff estimates and exclude mobile phone charges and the effects of the consumption tax hike, free education policies, and travel subsidy programs.

Source: Ministry of Internal Affairs and Communications.

Developments in Labor Share and Wage Increases

Labor Share

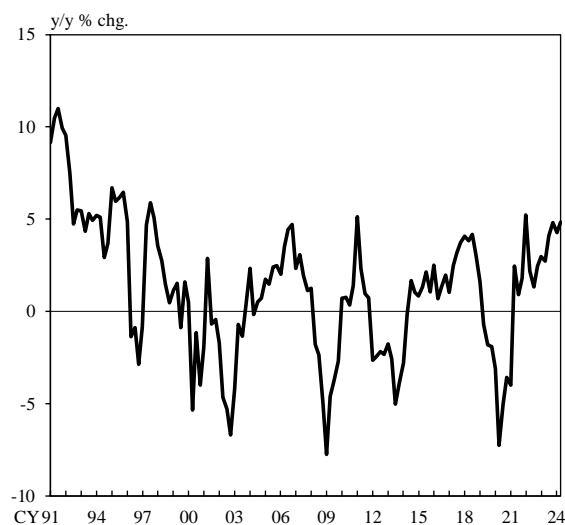


Notes: 1. Based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*. Excluding the finance and insurance industries.

2. Labor share = personnel expenses / value-added. Value-added = operating profits + personnel expenses + depreciation expenses.

Source: Ministry of Finance.

Personnel Expenses

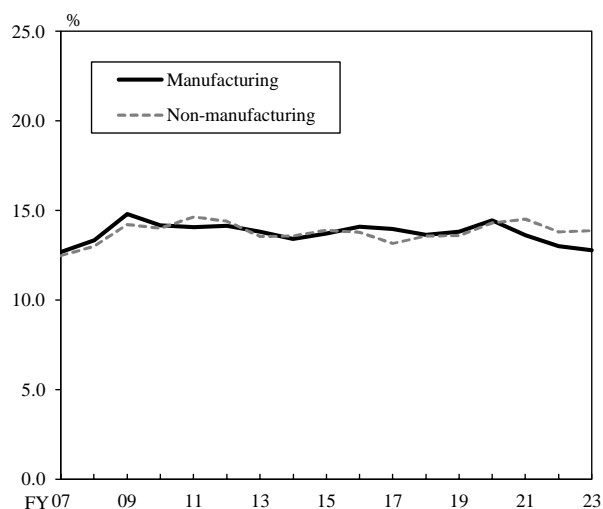


Note: Based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*. Excluding the finance and insurance industries.

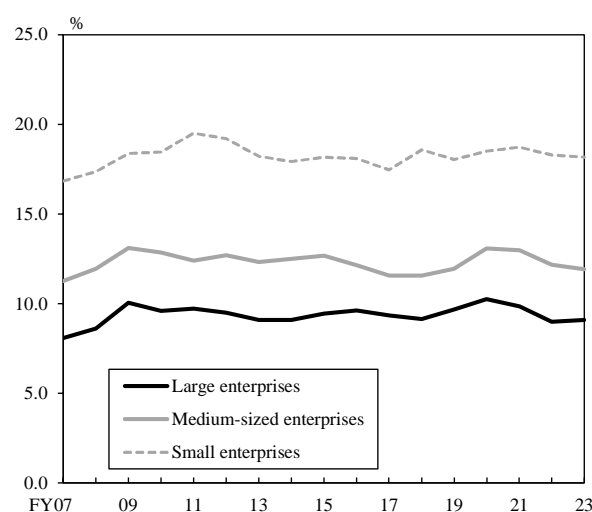
Source: Ministry of Finance.

Ratio of Personnel Expenses to Sales

By Industry (Enterprises of All Sizes)

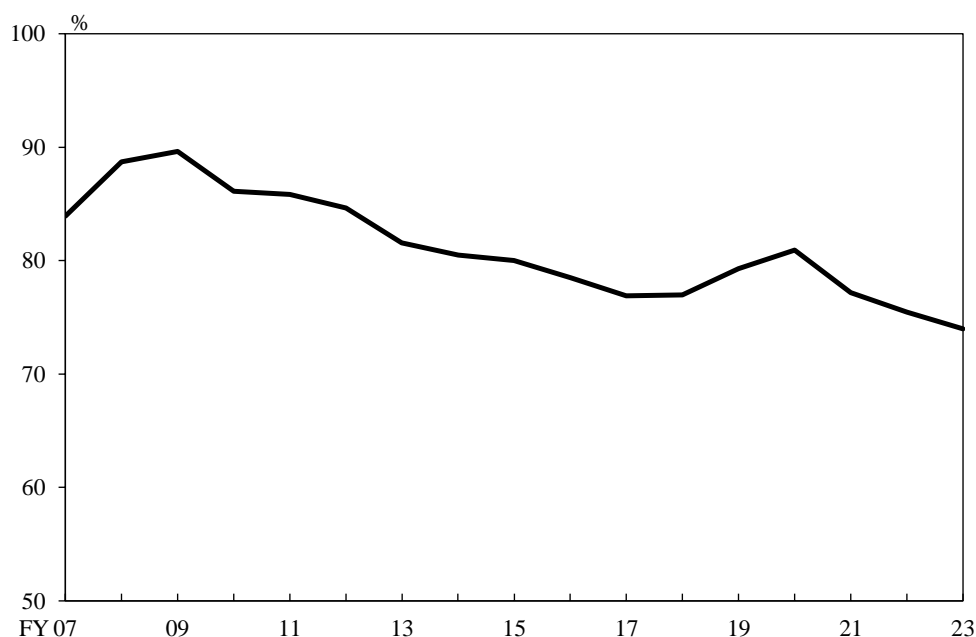


By Size (All Industries Excluding Finance and Insurance)



Notes: 1. Based on the *Financial Statements Statistics of Corporations by Industry, Annually*. Excluding the finance and insurance industries.
 2. Personnel expenses = directors' remuneration + bonus for directors + salaries and wages + bonus for employees + welfare expenses
 3. In the right panel, large enterprises are those with capital of 1 billion yen or more, medium-sized enterprises are those with capital of 100 million yen or more but less than 1 billion yen, and small enterprises are those with capital of less than 100 million yen.
 Source: Ministry of Finance.

Break-Even Ratio



Notes: 1. Based on the *Financial Statements Statistics of Corporations by Industry, Annually*. Excluding the finance and insurance industries. Enterprises of all sizes.
 2. Break-even ratio = break-even sales / sales. Break-even sales = fixed costs / marginal profit ratio. Fixed costs = personnel expenses + interest expenses, etc. + depreciation expenses + rent on movable property and real estate. Personnel expenses = directors' remuneration + bonus for directors + salaries and wages + bonus for employees + welfare expenses. Marginal profit ratio = (sales - variable costs) / sales. Variable costs = sales - fixed costs - current profits.
 Source: Ministry of Finance.

Decisions at the July 2024 MPM (1): Change in the Guideline for Money Market Operations

- Japan's economic activity and prices have been **developing generally in line with the Bank's outlook**. Moves to raise wages have been spreading.
- The year-on-year rate of change in import prices has turned positive again, and **upside risks to prices require attention**.

Medians of the Policy Board members' forecasts (y/y % chg.)

	Fiscal 2024	Fiscal 2025	Fiscal 2026
Real GDP	0.6 (-0.2)	1.0 (—)	1.0 (—)
CPI (all items less fresh food)	2.5 (-0.3)	2.1 (+0.2)	1.9 (—)
CPI (all items less fresh food and energy)	1.9 (—)	1.9 (—)	2.1 (—)

Note: Figures in parentheses indicate changes from the April Outlook Report.

Risk balance assessments on prices

Fiscal 2024	Fiscal 2025	Fiscal 2026
↗	↗	→
Upside	Upside	Balanced

Adjusting the degree of monetary accommodation from the perspective of sustainable and stable achievement of the price stability target of 2 percent

Short-term interest rate: raised to "around 0.25%"

(uncollateralized overnight call rate)

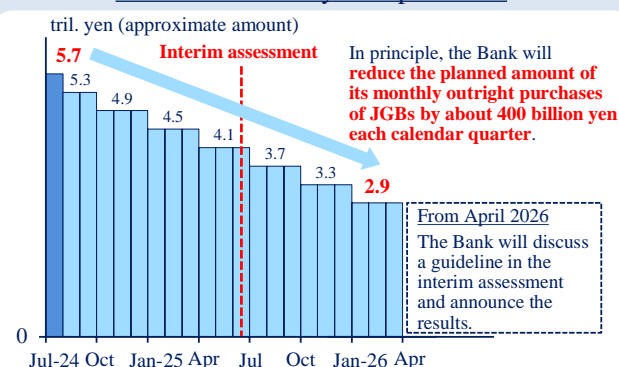
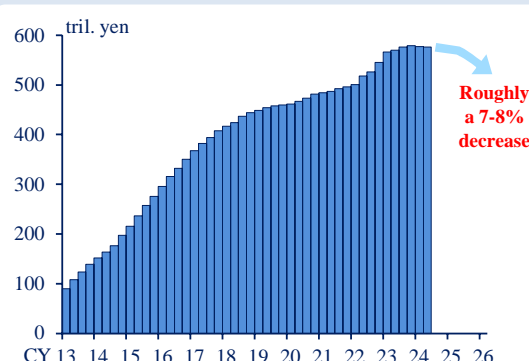
(previously "around 0 to 0.1%")

- Real interest rates are expected to remain significantly negative, and accommodative financial conditions will continue to **firmly support economic activity**.
- If the outlook presented in the July Outlook Report is realized, the Bank will accordingly continue to raise the policy interest rate and adjust the degree of monetary accommodation.

Decisions at the July 2024 MPM (2): Plan for the Reduction of the Purchase Amount of JGBs

The concept of the plan for the reduction until March 2026

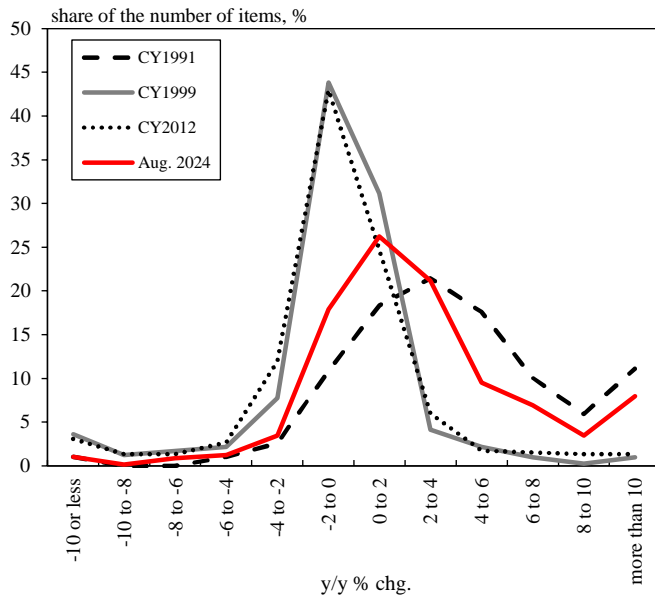
- Long-term interest rates: to be formed in financial markets in principle
- JGB purchases: appropriate for the Bank to **reduce its purchase amount of JGBs in a predictable manner**, while **allowing enough flexibility** to support stability in the JGB markets

Reduction in a Predictable MannerAmount of monthly JGB purchasesThe Bank's JGB holdings**Allowing Enough Flexibility**

- The Bank will **conduct an interim assessment of the plan at the June 2025 MPM**.
- 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.
- The Bank is prepared to amend the plan at the MPMs, if deemed necessary.

Conditions Required for Monetary Policy to Enter into a Normalization Process

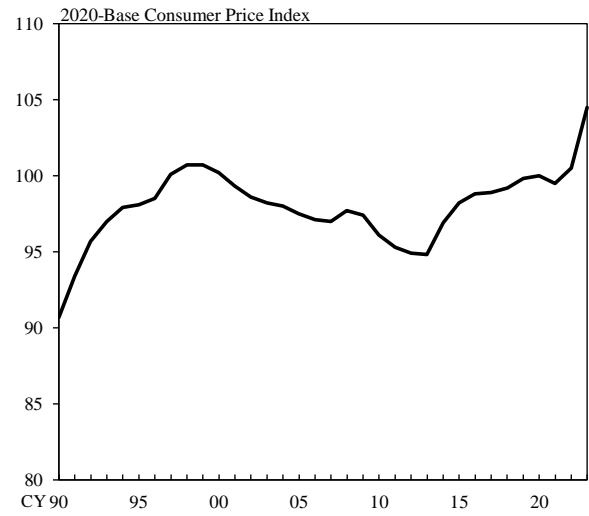
CPI Price Change Distributions



Notes: 1. Figures are calculated using long-term time series data for each item in Japan's CPI (2020-base).
 2. Figures for CY1991, 1999, and 2012 are calculated using annual average data.

Source: Ministry of Internal Affairs and Communications.

CPI (Less Fresh Food and Energy)



Note: Figures are annual averages.

Source: Ministry of Internal Affairs and Communications.