

Achievement of the 2 Percent Price Stability Target and Japan's Economy

*Speech at the Meeting of Councillors of Keidanren
(Japan Business Federation) in Tokyo*

December 25, 2024

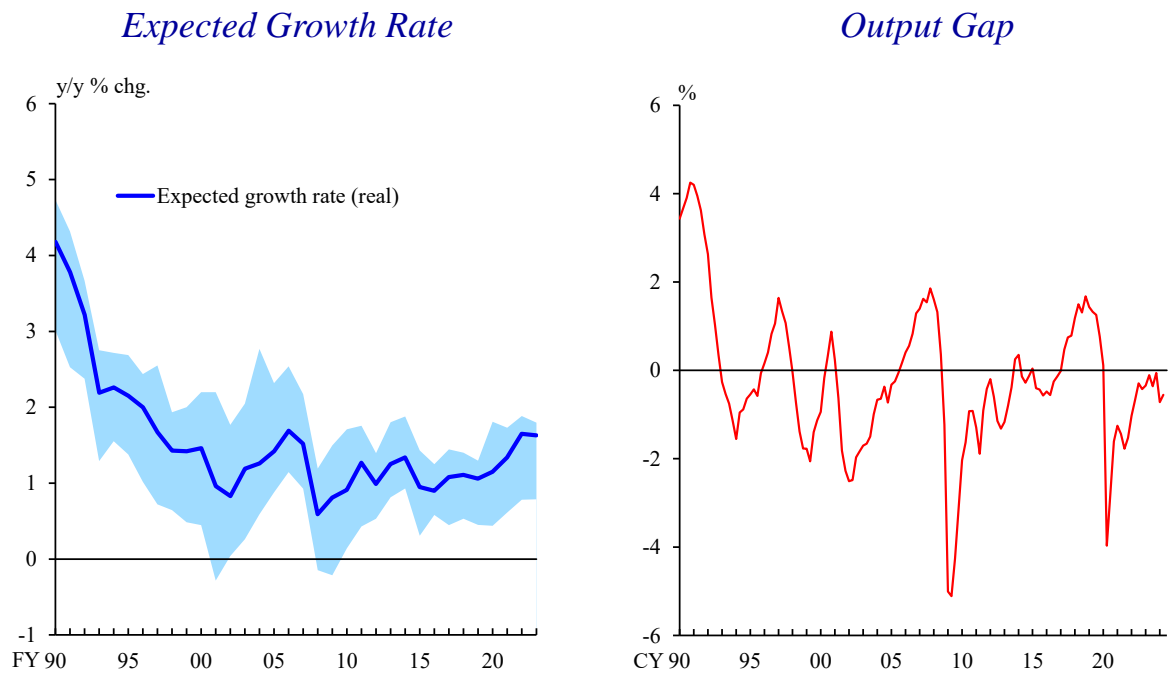
UEDA Kazuo

Governor of the Bank of Japan

Introduction

- I. Japan's Economy and Firms' Behavior under Deflation
and Low Inflation
- II. Achievement of the 2 Percent Target and Japan's
Economy
- III. Achievement of the 2 Percent Target and Monetary
Policy

Firms' Growth Expectations



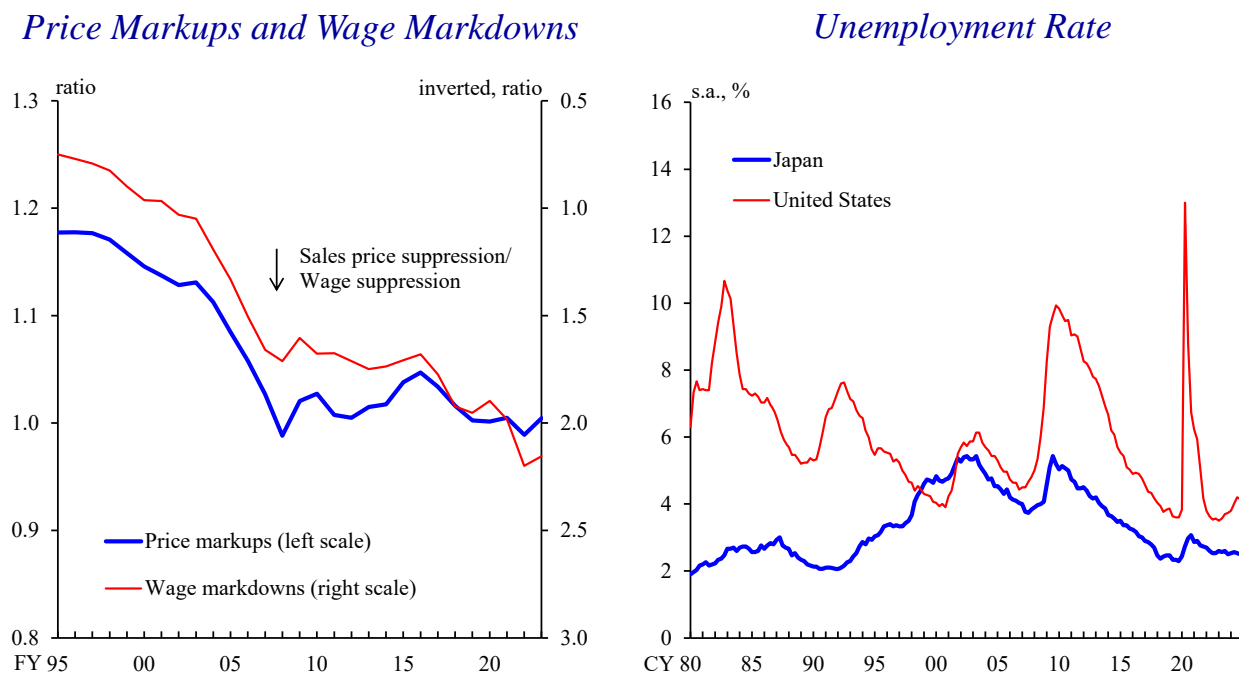
Notes: 1. In the left-hand chart, the "expected growth rate" is the average of firms' forecasts of the real growth rate of industry demand over the next five years. The shaded area indicates the 20-80 percentile band of the expected growth rate.

2. In the right-hand chart, figures are staff estimates.

Sources: Cabinet Office; Bank of Japan.

1

Firms' Wage- and Price-Setting Behavior and Employment Situation



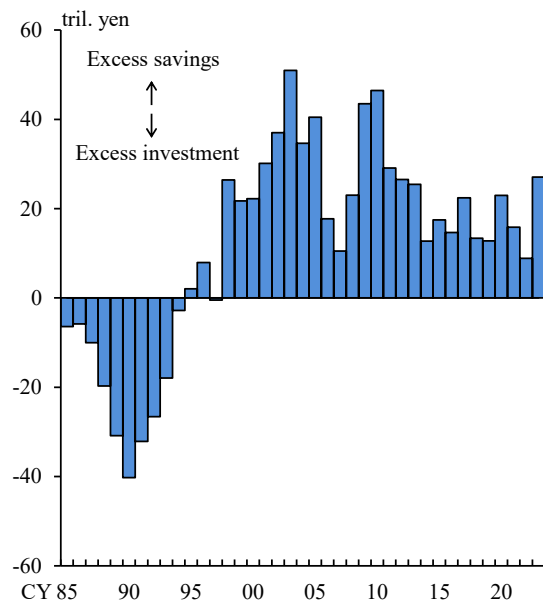
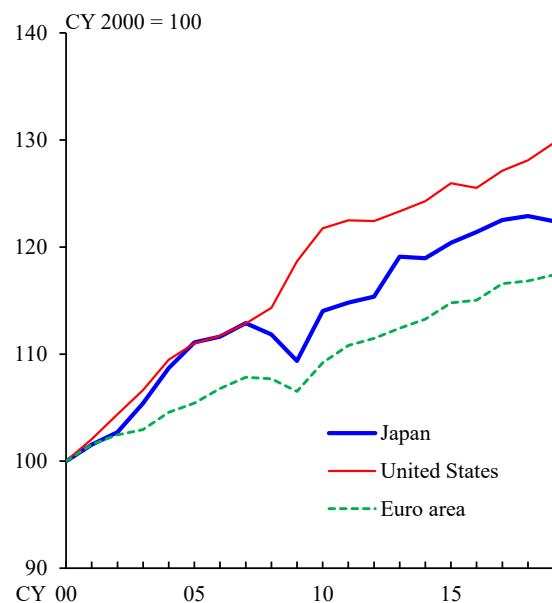
Notes: 1. In the left-hand chart, price markups are the ratio of sales price to marginal cost. Wage markdowns are the ratio of marginal revenue product of labor to wages. Figures for fiscal 2023 are April-December averages.

2. In the right-hand chart, the figure for 2024/Q4 for Japan is that for October. That for the United States is the October-November average.

Sources: Research Institute of Economy, Trade and Industry; Ministry of Finance; Cabinet Office; Development Bank of Japan, "Corporate Financial Databank"; Aoki et al. (2024); Ministry of Internal Affairs and Communications; BLS.

2

Firms' Behavior and Productivity

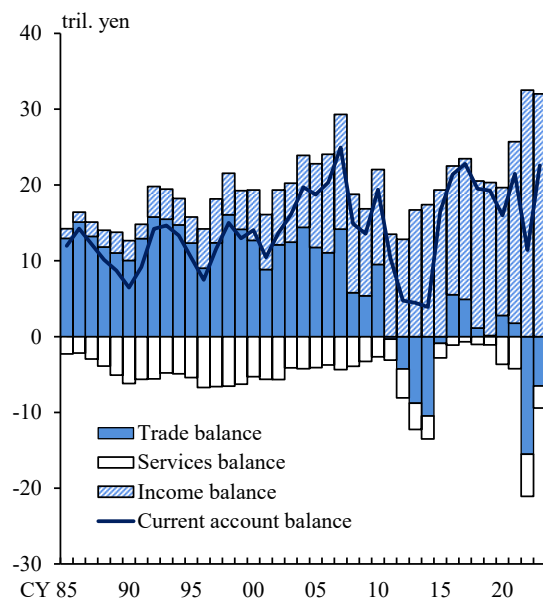
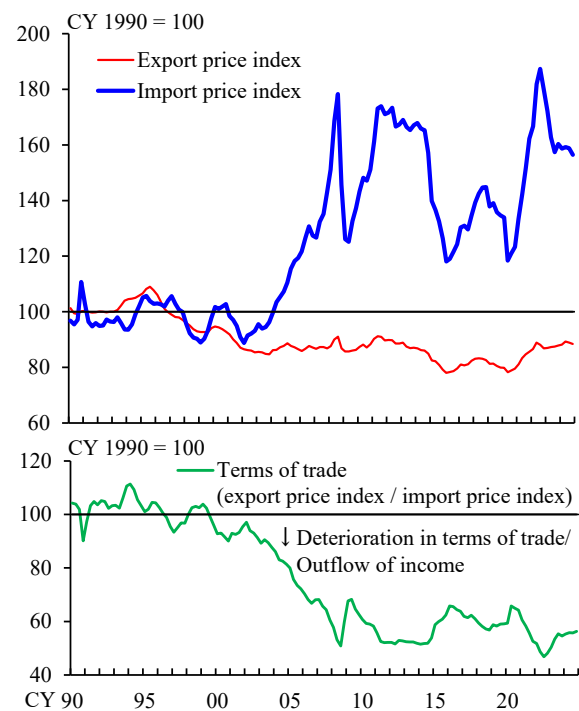
Savings-Investment Balance of the Corporate Sector*Labor Productivity*

Note: In the right-hand chart, figures are real labor productivity on an hours-worked basis.

Sources: Bank of Japan; Cabinet Office; Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare; Haver.

3

Change in Japan's Trade Structure

Current Account*Terms of Trade*

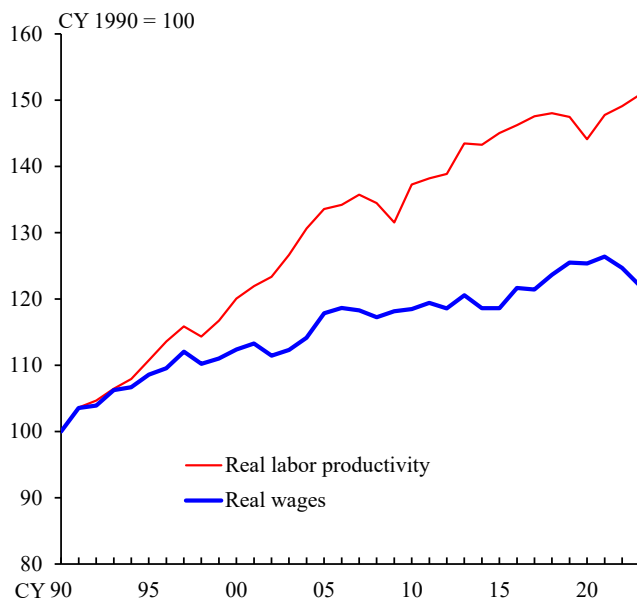
Note: In the right-hand charts, figures for export/import price indexes are on a contract currency basis. Figures for 2024/Q4 are October-November averages.

Sources: Ministry of Finance and Bank of Japan; Bank of Japan.

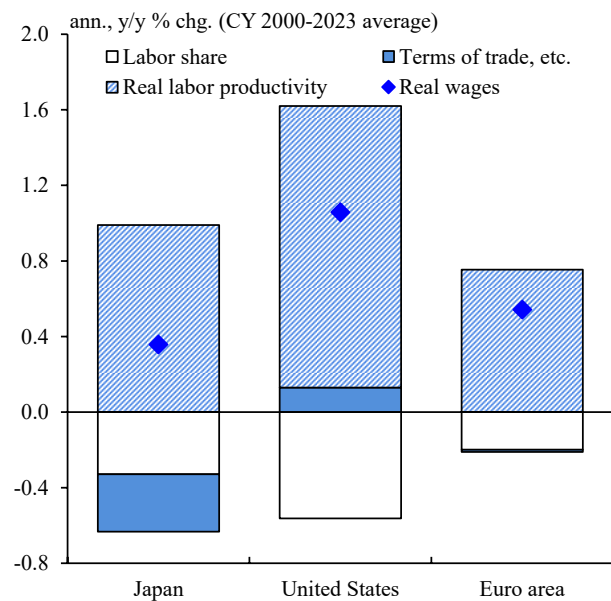
4

Real Wages

Real Wages and Labor Productivity



Contributions to Changes in Real Wages



Notes: 1. Real wages and real labor productivity are on an hours-worked basis.

2. The right-hand chart shows the results of decomposing changes in real wages using the following formula:

Real wages = Labor share × Real labor productivity × (GDP deflator / Deflator of consumption of households [= Terms of trade, etc.]).

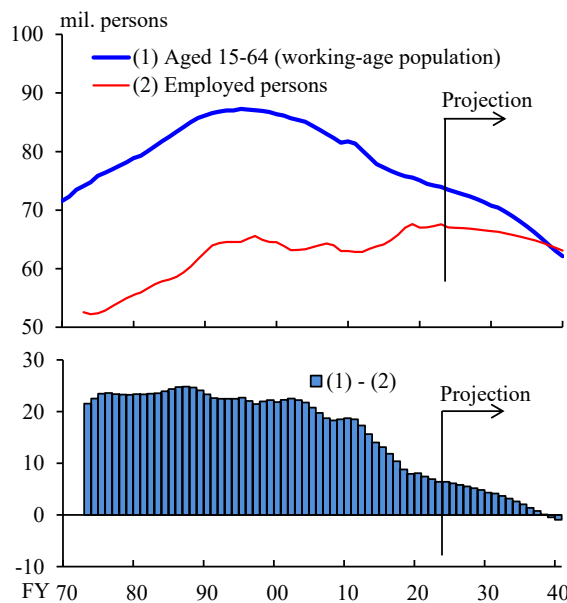
Sources: Cabinet Office; Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare; Haver.

5

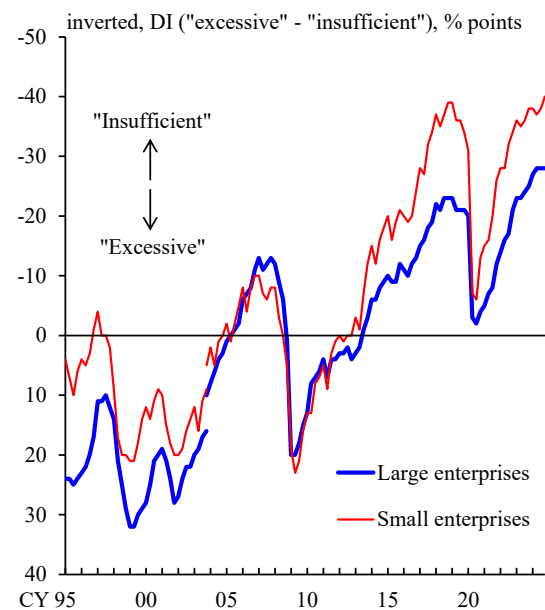
II. Achievement of the 2 Percent Target and Japan's Economy

Labor Market

Projection for Labor Input



Labor Market Conditions



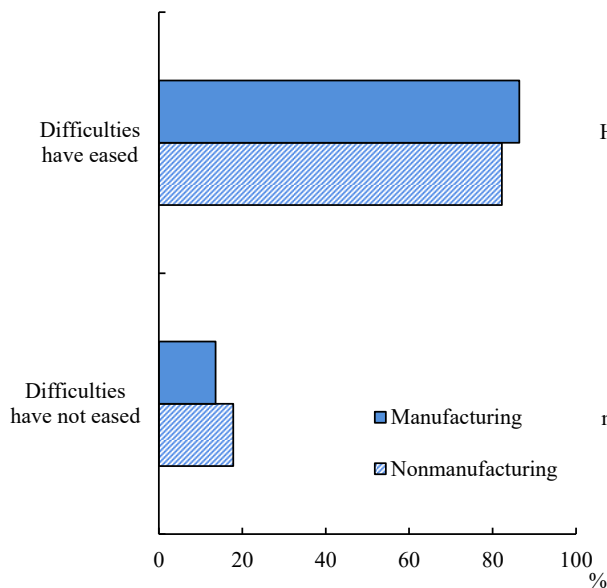
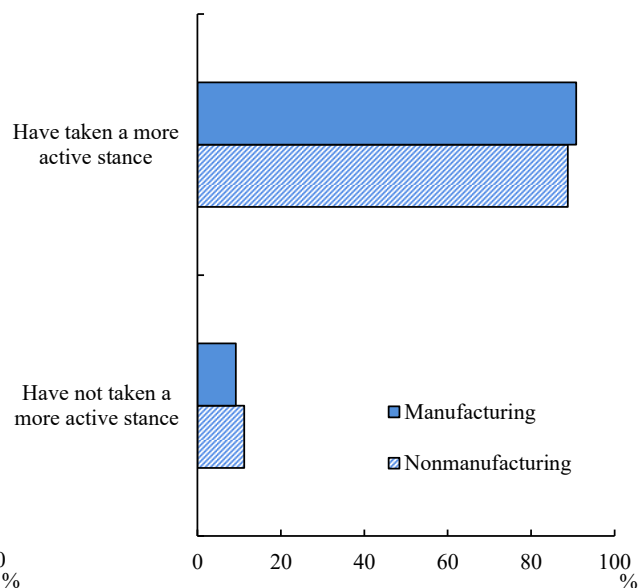
Notes: 1. In the left-hand chart, the projection for the working-age population is by the National Institute of Population and Social Security Research. The projection for the number of employed persons is calculated based on projections by the Japan Institute for Labour Policy and Training.

2. In the right-hand chart, figures are the employment conditions DI in the *Tankan*. 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; National Institute of Population and Social Security Research; Japan Institute for Labour Policy and Training; Bank of Japan.

6

Results of Large-Scale Corporate Survey (1)

Responses regarding Difficulties of Passing on Higher Costs to Prices*Responses regarding Stance toward Raising Wages*

Notes: 1. Results of the Survey regarding Corporate Behavior since the Mid-1990s. Respondents were asked about the present compared to the past.

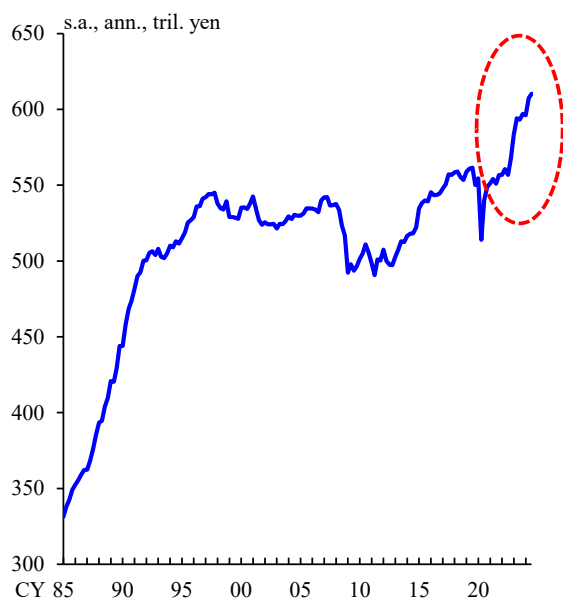
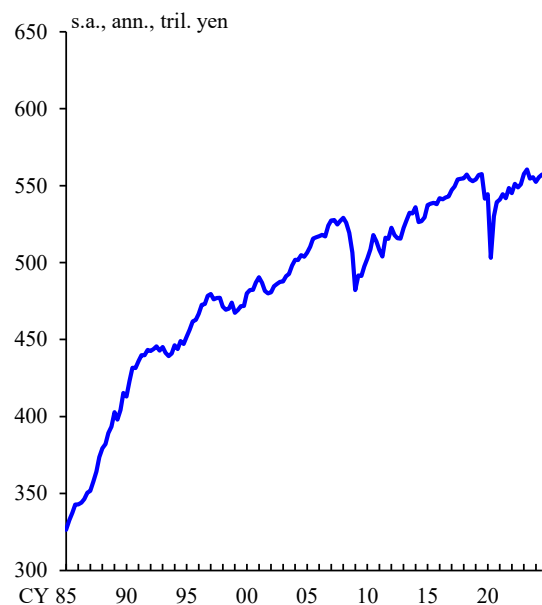
2. In the left-hand chart, figures for "difficulties have eased" are calculated as 100% - share of firms that responded that "difficulties have not eased."

3. In the right-hand chart, figures for "have taken a more active stance" are calculated as 100% - share of firms that responded that they "have not taken a more active stance."

Source: Bank of Japan.

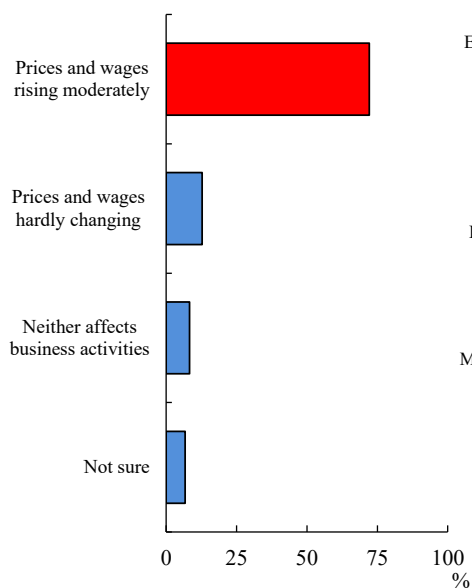
7

GDP Level

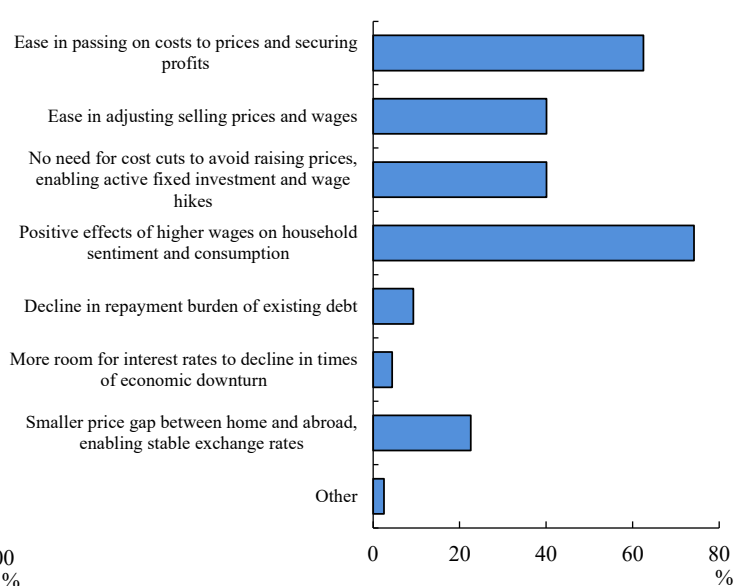
Nominal GDP*Real GDP*

Results of Large-Scale Corporate Survey (2)

Preferred State for Firms' Business Activities



Reasons for Preferring a State in Which Prices and Wages Rise Moderately



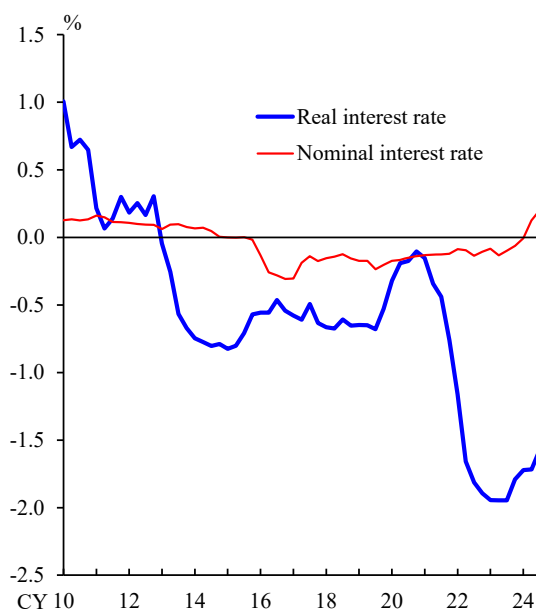
Notes: 1. Results of the Survey regarding Corporate Behavior since the Mid-1990s.

2. In the right-hand chart, figures are shares of the firms that responded that a state of both "prices and wages rising moderately" is preferable in the left-hand chart. All applicable reasons were allowed.

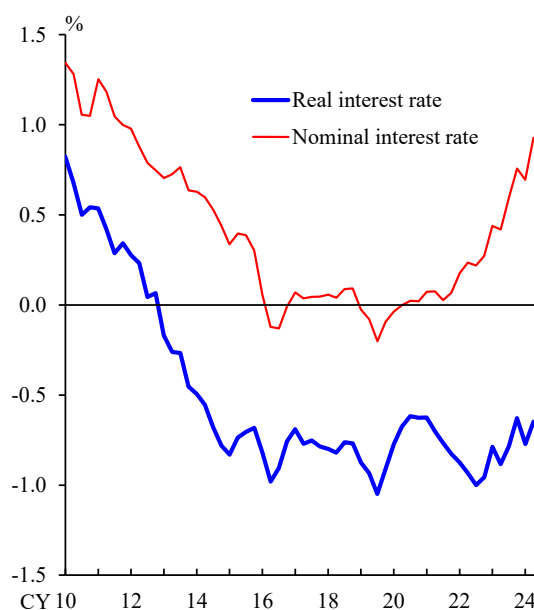
Source: Bank of Japan.

Nominal and 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.