



April 17, 2025

Bank of Japan

**Economic Activity, Prices,
and Monetary Policy in Japan**

Speech at a Meeting with Local Leaders in Gunma

NAKAGAWA Junko

Member of the Policy Board

(English translation based on the Japanese original)

I. Current Situation of Economic Activity and Prices

A. Current Economic Developments Abroad

I would like to begin my speech by taking a look at the current situation of overseas economies (Chart 1). Regarding global business sentiment, as of March 2025, the Purchasing Managers' Index (PMI) for the manufacturing industry has been at around 50 -- the break-even point between improvement and deterioration -- and the PMI for the services industry has continued to improve. In the January 2025 *World Economic Outlook (WEO) Update*, the International Monetary Fund (IMF) projected that the growth rate of the global economy would be in the range of 3.0-3.5 percent for both 2025 and 2026, which is broadly in line with the average growth rate since 1980. The IMF will release the next quarterly update of the WEO this month, and attention is warranted on its assessment of the future path of trade policies in each jurisdiction and global developments in economic activity and prices affected by such policies.

B. Current Economic Developments in Japan

I will now turn to the current situation of Japan's economy. The Bank of Japan judges that the economy has recovered moderately, although some weakness has been seen in part. It is necessary to pay attention to the fact that there are high uncertainties regarding trade policies in each jurisdiction and developments in overseas economic activity and prices affected by such policies. I will come back to this later.

In what follows, I would like to explain developments in Japan's economy from two aspects: the corporate sector and the household sector.

1. Corporate sector

Let me start with the corporate sector (Chart 2). Corporate profits have been on an improving trend on the whole. The *Financial Statements Statistics of Corporations by Industry, Quarterly* shows that current profits for all industries and enterprises for the October-December quarter of 2024 reached their highest level since the April-June quarter of 1985, from when comparable data are available. This reflects progress in the pass-through of cost increases to prices and the increase in non-operating profits due to the yen's depreciation in the October-December quarter. The Bank's March 2025 *Tankan* (Short-Term Economic

Survey of Enterprises in Japan) showed that business sentiment stayed at a favorable level. Specifically, the diffusion index (DI) for business conditions has remained at a favorable level for both manufacturing and nonmanufacturing: although firms have faced a rise in raw material and input prices, labor shortages, and a rise in personnel expenses, they have benefited from favorable demand related to business fixed investment and from solid private consumption.

Now I will touch on business fixed investment (Chart 3). With corporate profits improving, business fixed investment has continued on a moderate increasing trend, mainly led by digital- and labor saving-related investments at home. The aggregate supply of capital goods -- a coincident indicator of machinery investment -- has increased with a continued recovery in demand for IT-related goods, although sluggish external demand has pushed down renewal investment. Regarding construction investment, private construction completed has been more or less flat, partly because investments have been delayed reflecting factors such as high construction material prices and labor shortages. That said, a leading indicator of construction investment has been at a relatively high level, mainly because the construction of logistics facilities, urban redevelopment projects, and the establishment of new factories have all remained active. Business fixed investment plans in the March 2025 *Tankan* indicated that the year-on-year rate of increase in investment would be relatively high at 8.2 percent for fiscal 2024. They also showed a year-on-year rate of increase of 2.7 percent for fiscal 2025, suggesting a high increase compared with the average of past surveys for March, the month before the start of a new fiscal year.

Turning to industrial production, exports, and imports, the Bank judges that they have all been more or less flat (Chart 4). Looking at the latest developments, industrial production increased for the October-December quarter of 2024, reflecting (1) a dissipation of the effects of automakers suspending operations at factories in the previous quarter due to the typhoon, and (2) a concentration of projects to manufacture semiconductor production equipment; however, industrial production has since declined somewhat, mainly reflecting a dissipation of the effects of the concentration of such projects.

I will outline developments in real exports by region and by type of goods, based on data until February 2025 (Chart 5). By region, exports to the United States increased and have been at relatively high levels, as the effects of the dockworkers strike on the East Coast have dissipated. Some view that a front-loaded increase in demand prior to the U.S. tariff hike may have also affected some of these exports. On the other hand, exports to Europe have been relatively weak, mainly for capital goods. Exports to China have also been relatively weak against the background of a slowdown in the Chinese economy. Exports to the NIEs, the ASEAN economies, and some other Asian economies have increased, particularly for semiconductor-related goods. By type of goods, exports of automobile-related goods have risen due to the dissipation of the effects of the dockworkers strike in the United States. As for exports of capital goods, those of semiconductor production equipment have been at relatively high levels. Although exports of IT-related goods have been firm, those of intermediate goods -- including chemicals -- have been at relatively low levels, mainly reflecting an oversupply of such goods, particularly in Asia.

2. Household sector

I now turn to the household sector, focusing on private consumption and the employment and income situation.

Private consumption has been on a moderate increasing trend to date despite the impact of price rises (Chart 6). The Consumption Activity Index, which is calculated by combining various sales and supply-side statistics, has continued on a decreasing trend, mainly for nondurable goods. However, the Bank judges that private consumption thus far has been decent in reality. This is evidenced by the fact that services consumption has increased moderately as a trend, and also suggested by, for example, anecdotal information from firms and high-frequency data such as on credit card spending.

The employment and income situation has improved moderately. Chart 7 shows that the number of employed persons has continued to rise. In the left panel of this chart, the calendar year 2019, the year before the outbreak of the pandemic in Japan, is used as the base year for the number of regular employees and non-regular employees. The number of regular employees has been on a moderate uptrend, albeit with fluctuations, mainly in the information

and communications industry and the medical, healthcare, and welfare services industry, both of which have been facing severe labor shortages. The number of non-regular employees overall has been more or less flat: while the number of non-regular employees in industries such as face-to-face services has been on an increasing trend, the number of involuntary non-regular employees has been on a declining trend with labor market conditions tightening. Nominal wages per employee have shown a clear increase, partly reflecting the improving trend in corporate profits. In addition, the year-on-year rate of increase in scheduled cash earnings has remained at a relatively high level (Chart 8). In light of the employment and wage developments mentioned so far, employee income -- which is the total amount of wages earned by all employees -- has continued to see a clear year-on-year increase in nominal terms, and in real terms, the rate of change in employee income has been positive recently. Furthermore, the 2025 annual spring labor-management wage negotiations provide positive signs: the third provisional aggregate results of wage negotiations compiled by the Japanese Trade Union Confederation (Rengo) show that the year-on-year rate of increase in wages agreed in the negotiations is an average of 5.42 percent, and that for unions with less than 300 members also stands at 5 percent, both following the high levels for 2024.

C. Current Price Developments in Japan

Next, I would like to talk about current price developments in Japan (Chart 9).

Looking at recent data, the year-on-year rate of increase in the consumer price index (CPI) for all items excluding fresh food has been in the range of 3.0-3.5 percent, and the increase in the CPI for all items excluding fresh food and energy has been in the range of 2.5-3.0 percent. The increase in the producer price index (PPI) has been in the range of 4.0-4.5 percent. The increase in the services producer price index (SPPI) has remained relatively high recently at around 3.0-3.5 percent. Now let us take a look at the right panel of Chart 9, which shows the breakdown of the year-on-year rate of change in the CPI excluding fresh food, energy, and the effects of temporary factors. Figures for the rate of increase in general services prices seem to have moderated, partly because the impact of the price survey of charges for package tours to overseas being resumed last year has dissipated. On the other hand, the increase in goods prices has accelerated, due to a rise in rice prices and its spillover effects, and because moves to pass on higher costs -- such as increased personnel expenses and distribution costs

-- to prices have been widely observed. In addition, the rate of change in administered prices, which were less likely to move in the past, has been increasing.

Let me now focus on factors affecting price developments (Chart 10). The import price index on a contract currency basis has been more or less flat since 2023, after it decreased in response to past developments in international commodity prices. On the other hand, the index on a yen basis has been significantly higher than the index on a contract currency basis. Although commodity prices have declined and the excessive depreciation of the yen has subsided, firms' price revisions are still in progress; specifically, firms are in the midst of reflecting the impact of past developments in commodity prices and foreign exchange rates in the price of intermediate and final products. This is because some firms have been conducting the revisions carefully while gauging developments in demand and their clients' and consumers' reactions.

Next, I would like to look at data that the Bank regularly releases as indicators used to capture the underlying trend in the CPI (Chart 11). The trimmed mean of the year-on-year rate of increase in the CPI has been in the range of 2.0-2.5 percent, and the mode and the weighted median have both been in the range of 1-2 percent, all showing a recent resumption of an uptrend. Chart 12 shows trends in the distribution of price changes for items that make up the CPI, specifically in the 25th-75th percentile band. It reveals that, since April 2022, around three-quarters of items have experienced year-on-year price increases. Although the median of the price change distribution is lower than the past peak, it has exceeded 2 percent, as more items have experienced high price rises recently. Therefore, the median and the year-on-year rate of increase in the price of items in the 25th-75th percentile band both seem to be on an uptrend again.

Given that the formation of inflation expectations in Japan is largely adaptive, the recent price environment has brought about a gradual rise in firms' and households' medium- to long-term inflation expectations.

II. Outlook for and Risks to Economic Activity and Prices

A. Outlook

Now I would like to explain the Bank's outlook for Japan's economic activity and prices based on the *Outlook for Economic Activity and Prices* (Outlook Report) decided at the January 2025 Monetary Policy Meeting (MPM) (Chart 13).

The real GDP growth rate is projected to be 0.5 percent for fiscal 2024, 1.1 percent for fiscal 2025, and 1.0 percent for fiscal 2026, in terms of the median of the Policy Board members' forecasts.

The background for the real GDP projections is that Japan's economy is likely to keep growing at a pace above its potential growth rate, with overseas economies continuing to grow moderately and as a virtuous cycle from income to spending gradually intensifies on the back of factors such as accommodative financial conditions.

The year-on-year rate of change in the CPI for all items excluding fresh food is projected to be 2.7 percent for fiscal 2024, 2.4 percent for fiscal 2025, and 2.0 percent for fiscal 2026, in terms of the median of the Policy Board members' forecasts. Likewise, the rate of change in the CPI for all items excluding fresh food and energy is projected to be 2.2 percent for fiscal 2024, and 2.1 percent for both fiscal 2025 and fiscal 2026.

The CPI projections are based on expected positive contributions throughout fiscal 2025 from high levels of rice prices and the dissipation of some effects of the government's measures that have been pushing down inflation. In the second half of the projection period -- in other words, toward the end of fiscal 2026 -- underlying inflation is likely to be around the 2 percent level, which is generally consistent with the price stability target. This is because it is projected that, with labor market conditions remaining tight, the output gap will continue to improve, wages and prices will continue to increase, and medium- to long-term inflation expectations will also rise.

B. Risks

There are high uncertainties regarding this outlook for economic activity and prices. I will describe three risk factors to the outlook that I am paying attention to.

The first risk involves growing uncertainties regarding tariffs and other policies in the United States and developments in overseas economies and global financial and capital markets. One of the major uncertainties is tariff policies, which could affect Japan's economy through various channels. Specifically, they may have a direct impact on global trade activity and on Japanese firms' exports, production, sales, fixed investment, and profits. There could also be an impact on Japan's real economy and prices, as growing uncertainties regarding tariffs and other policies could affect business and household sentiment at home and abroad. If commodity prices and global financial and capital markets undergo excessive fluctuations and adjustments, this may exert even stronger downward pressure on Japan's economy. Since the extent of the impact largely depends on the future course of tariff policies, it is necessary to monitor developments with high vigilance.

The second risk concerns firms' wage- and price-setting behavior. The sustained inflation seen thus far has brought about a rise in households' and firms' medium- to long-term inflation expectations, and firms' behavior has shifted more toward raising wages and prices. Apart from the potential impact of trade policy that I mentioned in the first risk, it is likely that firms' price revisions in response to past inflation are still in progress, as I explained earlier. In this context, upward pressure on wages could intensify further with labor market conditions remaining tight, and moves to reflect the past inflation and higher wages in selling prices could strengthen to a greater extent than expected.

The third risk is that a deterioration in consumer sentiment will disrupt the virtuous cycle from income to spending. As I mentioned earlier, the Bank judges that private consumption has been on a moderate increasing trend, thanks to improvement in the income situation and the effects of the government's measures implemented thus far to address rising prices. However, improvement in consumer sentiment has been seesawing, reflecting in part the climbing rate of increase in the price of food and other everyday goods. Uncertainties concerning tariff policies, the employment and income situation, and Japan's economy,

together with a potential further increase in households' defensiveness toward spending due to price rises, may increasingly weigh on consumer sentiment and thereby push down the real economy.

III. The Bank's Conduct of Monetary Policy

I would now like to look back at the Bank's decisions made at the MPMs held in January and March 2025.

With respect to the guideline for money market operations, at the January MPM, the Bank decided to raise the target for its policy interest rate, the uncollateralized overnight call rate, from the previous level of "around 0.25 percent" to "around 0.5 percent" (Chart 14). Accordingly, it also decided to change the interest rate applied to the complementary deposit facility and the basic loan rate applicable under the complementary lending facility, based on wage and price developments at the time of the January MPM. Regarding wages, many firms had plans to continue raising wages steadily in the 2025 annual spring labor-management wage negotiations, following the solid wage increases in 2024. On the price front, firms had been increasingly reflecting higher costs -- not only increased raw material costs but also higher personnel expenses and distribution costs -- in selling prices. Based on the assessment that the likelihood of realizing its outlook for economic activity and prices had been rising, the Bank judged it appropriate to raise the policy interest rate and adjust the degree of monetary accommodation from the perspective of sustainable and stable achievement of the 2 percent price stability target.

At the March MPM, the Bank decided to maintain its guideline for money market operations. There were high uncertainties about (1) the evolving situation regarding trade and other policies in each jurisdiction and (2) economic activity and prices at home and abroad under such a situation. That said, the Bank judged that Japan's economic activity and prices had been developing generally in line with its outlook, given factors such as the preliminary results of the 2025 annual spring labor-management wage negotiations available at the time of the March MPM. Nevertheless, the Bank deemed that it needed time to assess the impact of changes in the policy interest rate decided in January and earlier.

Considering the current levels of real interest rates, the future conduct of monetary policy will depend on developments in economic activity and prices as well as financial conditions. That said, if its outlook for economic activity and prices is realized, the Bank will accordingly continue to raise the policy interest rate and adjust the degree of monetary accommodation. At the MPM starting at the end of April, the Bank will release its projections for fiscal 2027 for the first time. With uncertainties such as the impact of tariff policies being significantly high, it will make monetary policy decisions as appropriate while carefully monitoring, without any preconceptions, economic and price developments at home and abroad and financial market developments.

Thank you.



Economic Activity, Prices, and Monetary Policy in Japan

Speech at a Meeting with Local Leaders in Gunma

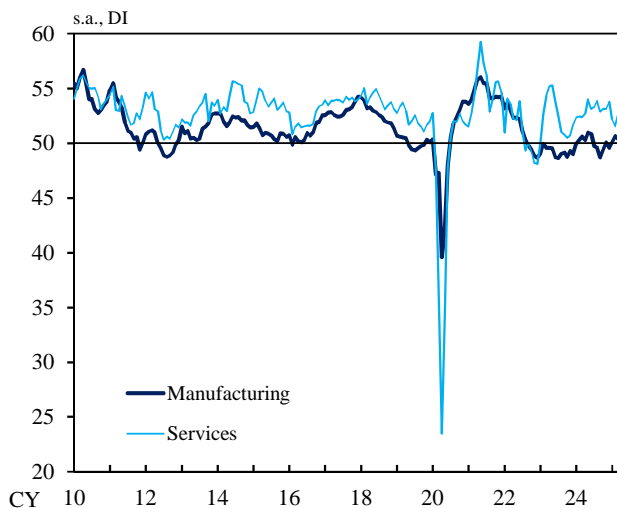
April 17, 2025

NAKAGAWA Junko
Member of the Policy Board
Bank of Japan

Chart 1

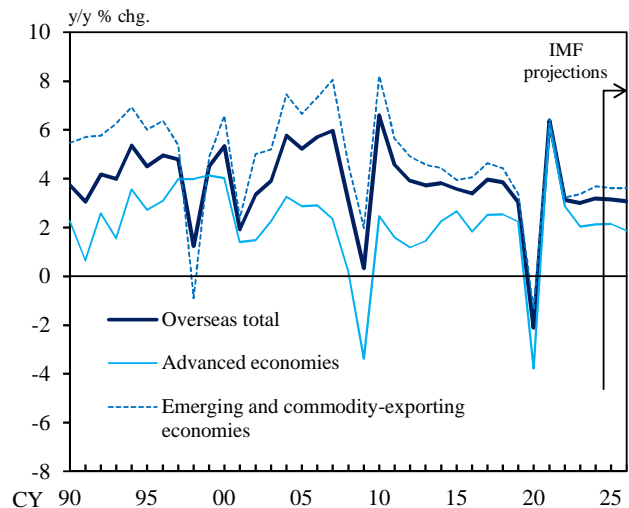
Overseas Economies

Global PMI



Note: Figures for manufacturing are the J.P.Morgan Global Manufacturing PMI.
Figures for services are the J.P.Morgan Global Services PMI Business Activity Index.
Source: Copyright © 2025 by S&P Global Market Intelligence, a division of S&P Global Inc.
All rights reserved.

Outlook

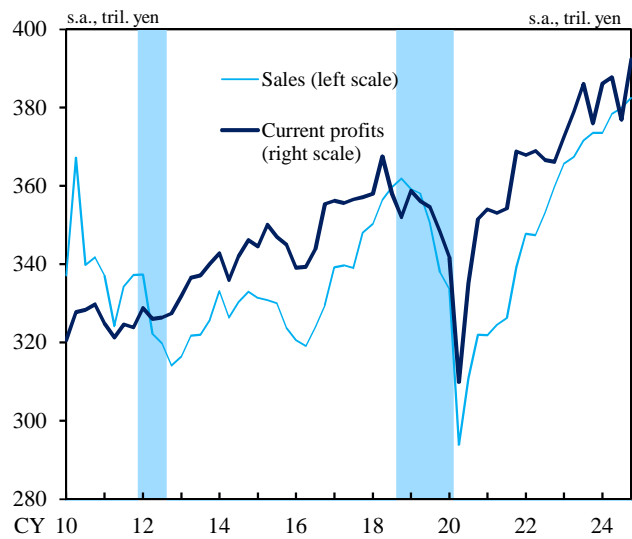


Note: Figures are the weighted averages of real GDP growth rates using countries' share in Japan's exports as weights. The real GDP growth rates are compiled by the IMF, and the rates from 2025 onward are its projections in the October 2024 WEO and the January 2025 WEO Update. Figures for advanced economies are those for the United States, the euro area, and the United Kingdom. Figures for emerging and commodity-exporting economies are those for the rest of the world.
Sources: IMF; Ministry of Finance.

Chart 2

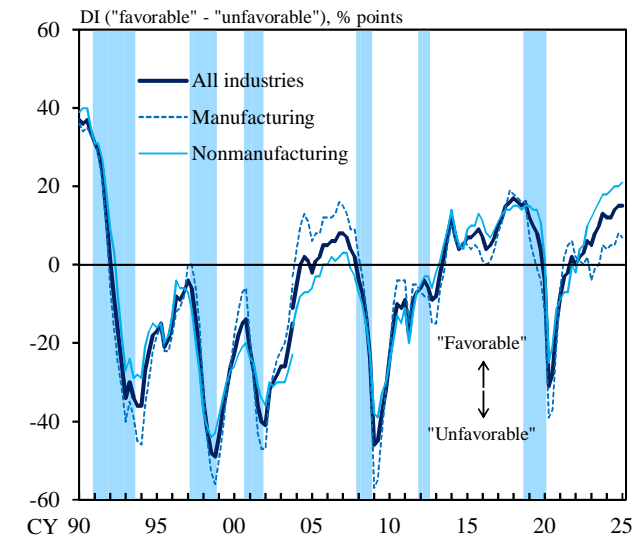
Corporate Sector in Japan

Corporate Profits



Source: Ministry of Finance.

Business Conditions

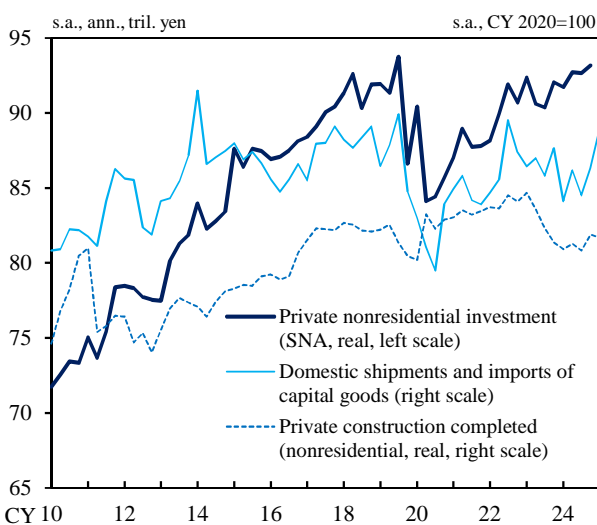


Source: Bank of Japan.

Chart 3

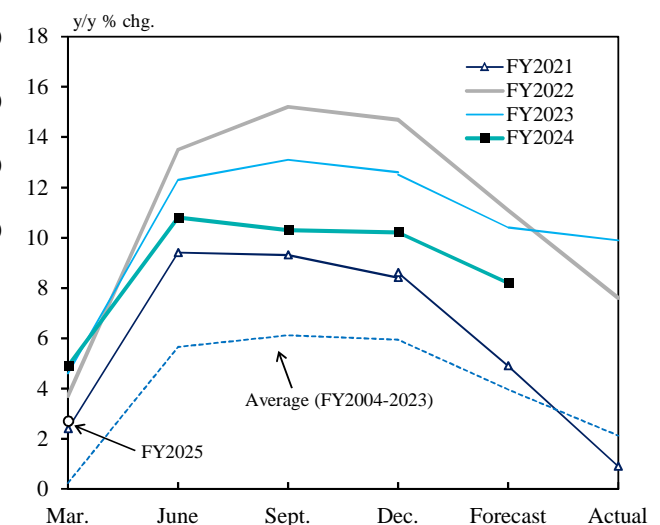
Corporate Sector in Japan

Coincident Indicators of Business Fixed Investment



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

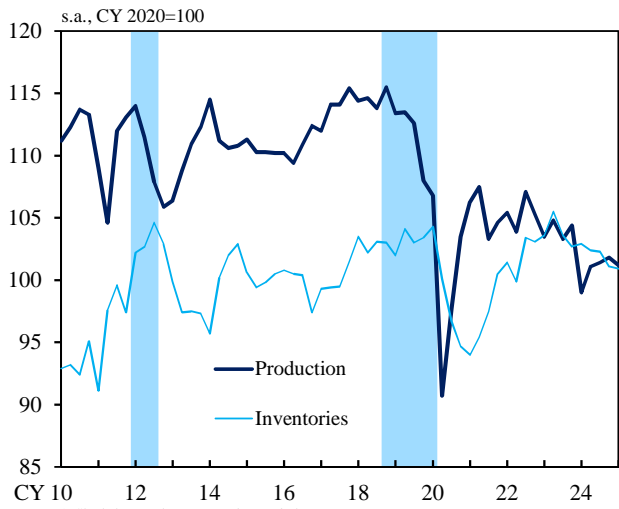
Business Fixed Investment Plans



Source: Bank of Japan.

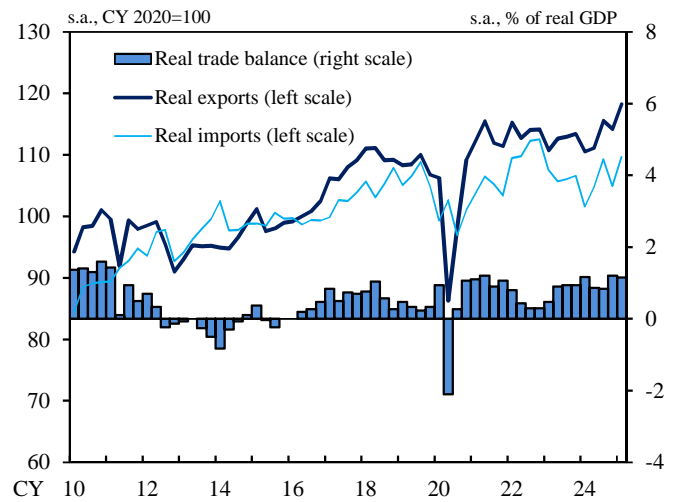
Corporate Sector in Japan

Industrial Production



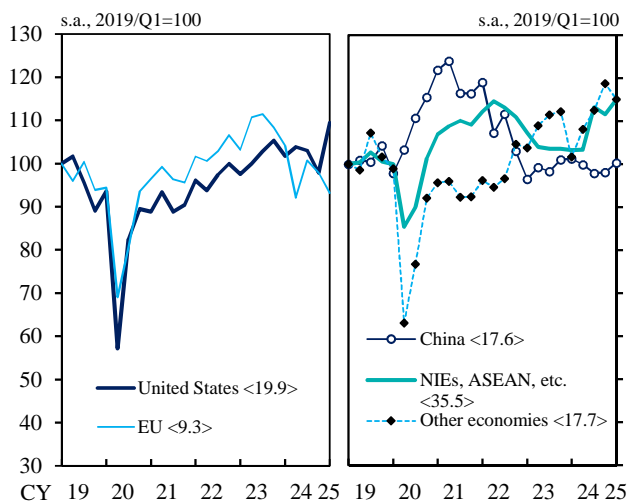
Source: Ministry of Economy, Trade and Industry.

Real Exports and Imports



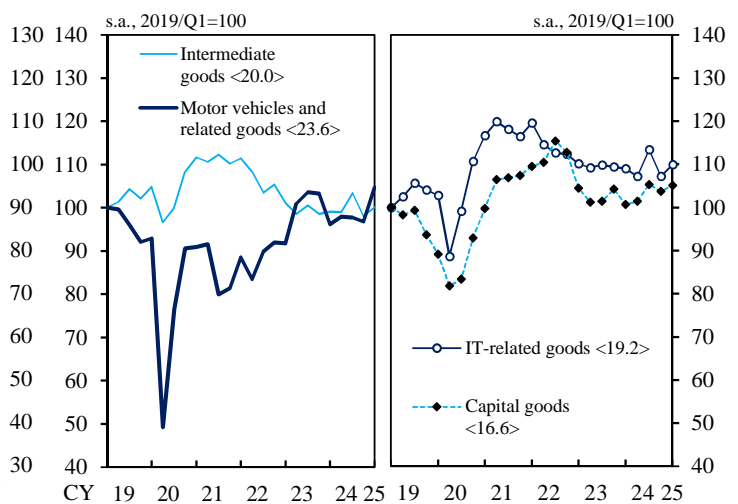
Corporate Sector in Japan

Real Exports by Region



Sources: Ministry of Finance; Bank of Japan.

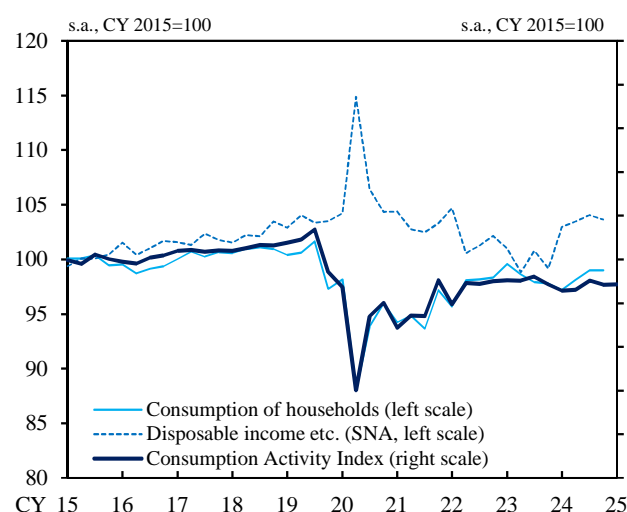
Real Exports by Type of Goods



Sources: Ministry of Finance; Bank of Japan.

Private Consumption in Japan

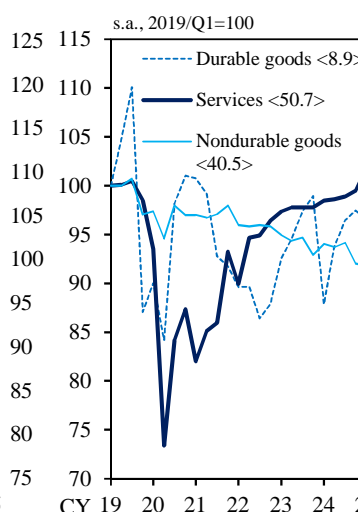
Real Private Consumption



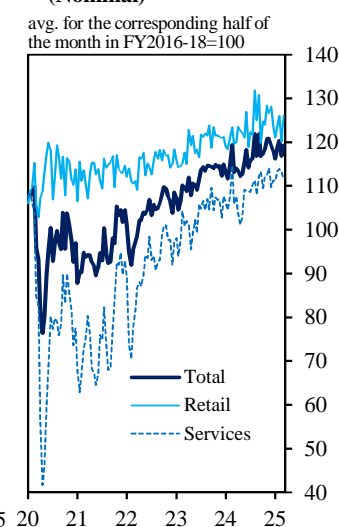
Notes: 1. Figures for the Consumption Activity Index (CAI) are based on Bank staff calculations. The CAI figures are travel balance adjusted; i.e., they exclude inbound tourism consumption and include outbound tourism consumption. The figure for 2025/Q1 is the January-February average.
2. Figures for consumption of households exclude imputed rent.
3. "Disposable income etc." consists of disposable income and adjustment for the change in pension entitlements, and real values are obtained using the deflator of consumption of households.
Sources: Cabinet Office; Bank of Japan, etc.

Private Consumption by Type

1. Consumption Activity Index (CAI, Real)



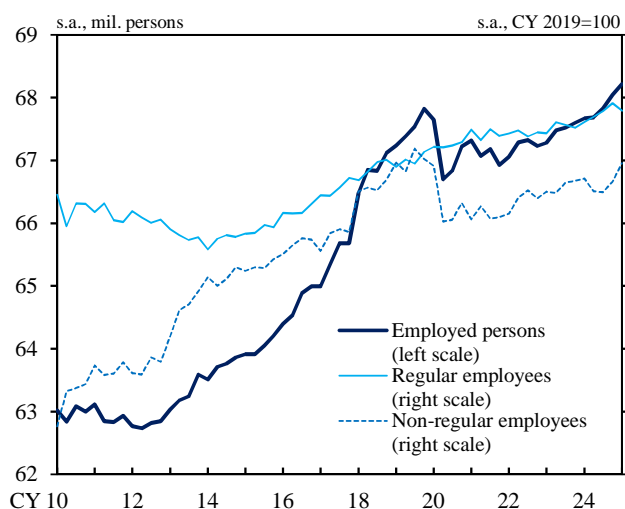
2. Credit Card Spending (Nominal)



Notes: 1. Figures in both panels are based on Bank staff calculations.
2. In the left panel, figures in angle brackets show the weights in the CAI. Nondurable goods include goods classified as semi-durable goods in the SNA. Figures for 2025/Q1 are January-February averages.
3. In the right panel, figures are from the reference series in *JCB Consumption NOW*, which take into account changes in the number of consumers. Figures exclude telecommunications and energy (fuel, electricity, gas, heat supply, and water).
Sources: Cabinet Office; Nowcast Inc./ JCB, Co., Ltd., "JCB Consumption NOW"; Bank of Japan, etc.

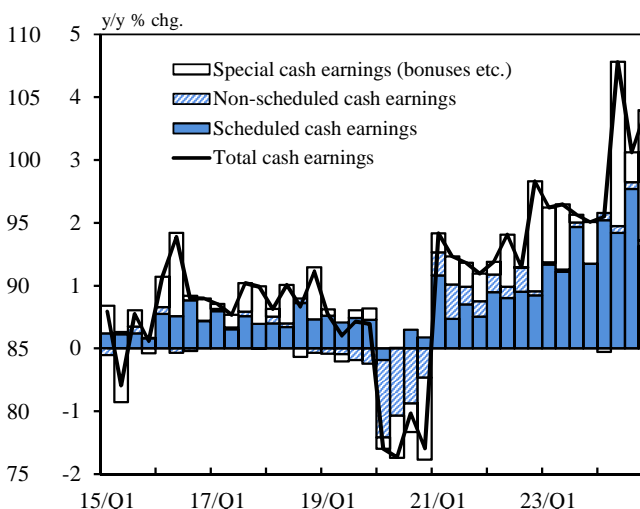
Employment and Income Situation in Japan

Number of Employed Persons



Note: Figures for regular employees and non-regular employees prior to 2013 are based on the "detailed tabulation" in the *Labour Force Survey*. Figures for 2025/Q1 are January-February averages.
Source: Ministry of Internal Affairs and Communications.

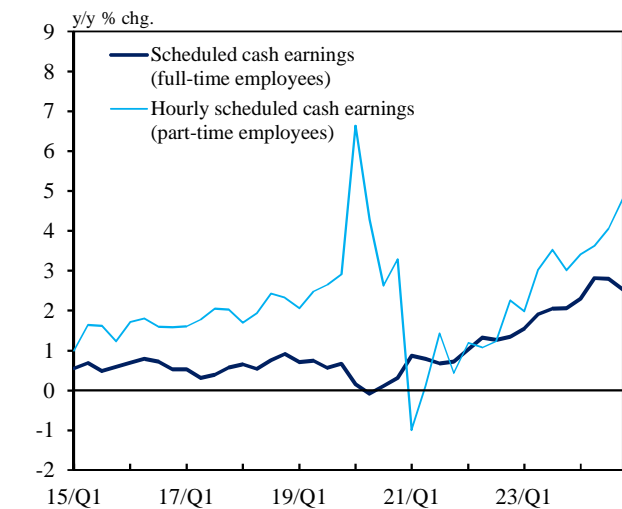
Nominal Wages per Employee



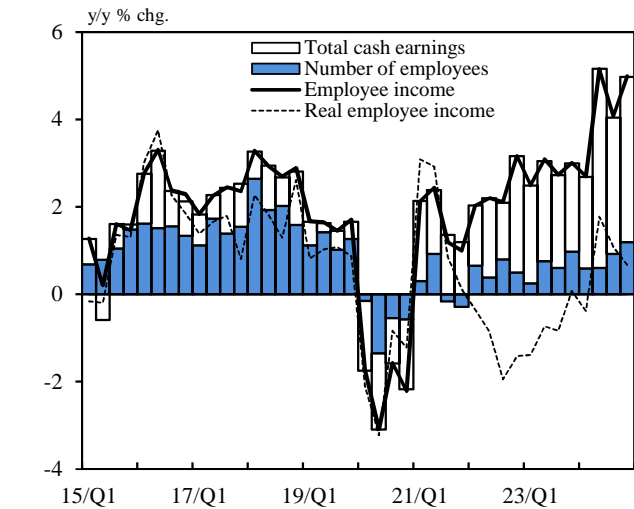
Notes: 1. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
2. Figures from 2016/Q1 onward are based on continuing observations following the sample revisions.
Source: Ministry of Health, Labour and Welfare.

Employment and Income Situation in Japan

Scheduled Cash Earnings



Employee Income



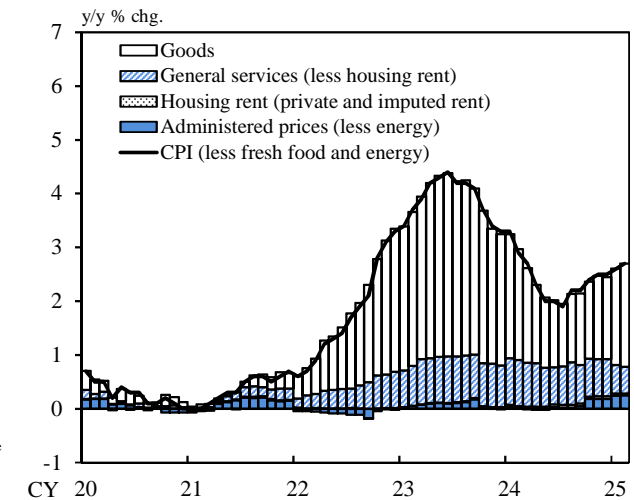
Inflation Indicators

Inflation Indicators

	y/y % chg.			
	24/Q2	24/Q3	24/Q4	25/Q1
CPI				
Less fresh food	2.4	2.6	2.6	3.1
Excluding temporary factors	2.4	2.8	2.8	3.2
Less fresh food and energy	2.2	2.0	2.3	2.6
Excluding temporary factors	2.1	2.1	2.5	2.7
PPI	1.9	2.9	3.8	4.1
SPPI	2.8	3.0	3.2	3.2
GDP Deflator	3.1	2.4	2.9	
Domestic demand deflator	2.6	2.2	2.4	

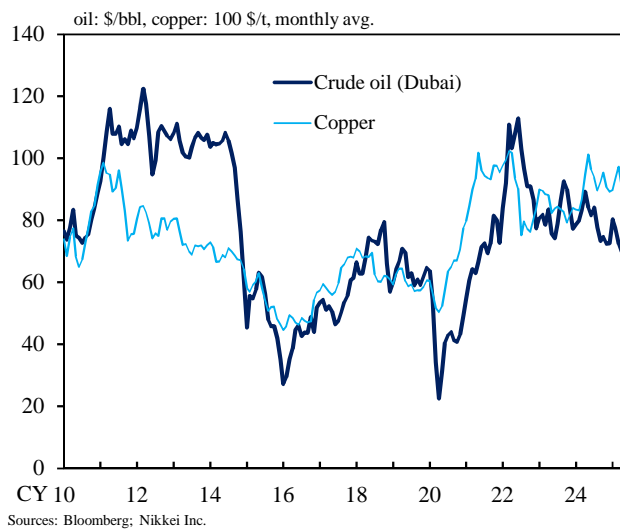
Notes: 1. Figures for the PPI are adjusted for the hike in electric power charges during the summer season. Figures for the SPPI exclude international transportation.
2. The CPI figures excluding temporary factors are Bank staff estimates and exclude the effects of free education policies, travel subsidy programs, and mobile phone charges.
3. Figures for 2025/Q1 are January-February averages, except for the PPI.
Sources: Cabinet Office; Ministry of Internal Affairs and Communications; Bank of Japan.

CPI (Excluding Temporary Factors)

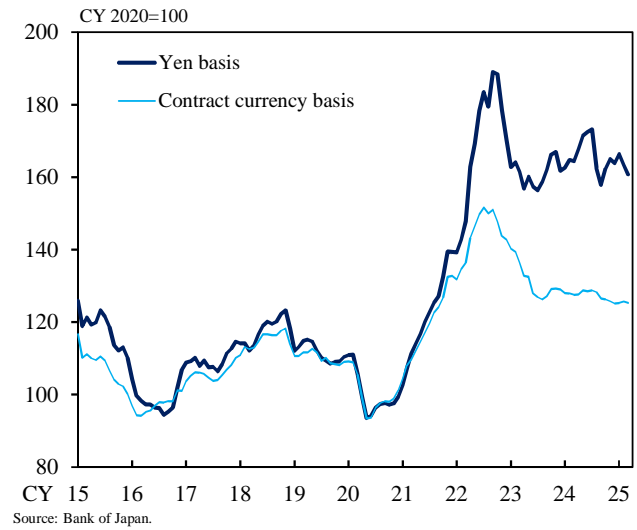


Factors Affecting Consumer Prices

International Commodity Prices

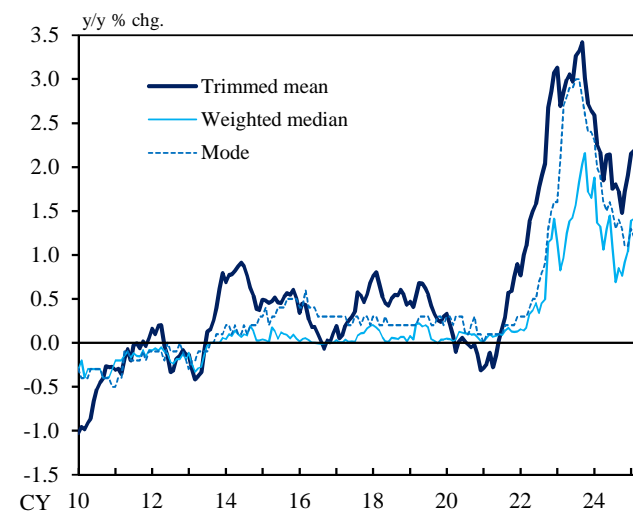


Import Price Index



Measures of Underlying Inflation

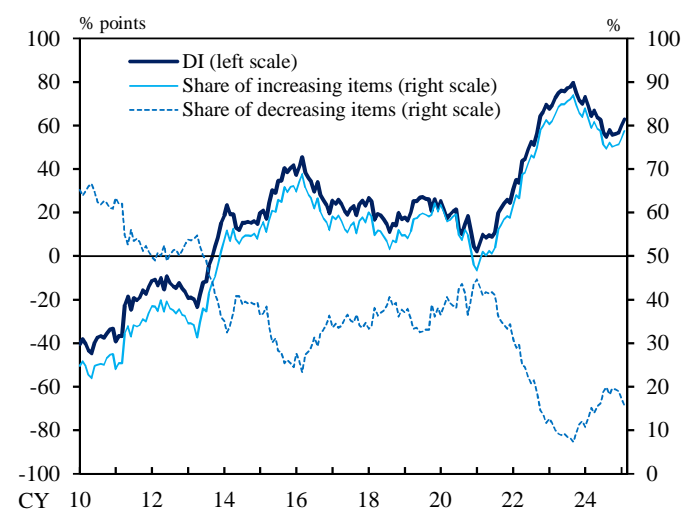
CPI: Trimmed Mean etc.



Note: Based on Bank staff calculations using the CPI excluding the effects of the consumption tax hikes, free education policies, and travel subsidy programs. The CPI figures from April 2020 onward are Bank staff estimates and exclude the effects of measures such as free higher education.

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

DI of Price Changes

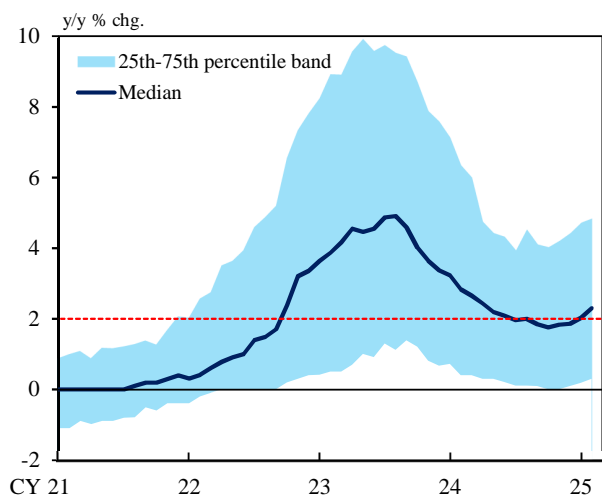


Note: The DI is defined as the share of increasing items minus the share of decreasing items. The share of increasing/decreasing items is the share of items for which price indices increased/decreased from a year earlier. Based on Bank staff calculations using the CPI (less fresh food) excluding the effects of the consumption tax hikes, free education policies, and travel subsidy programs. The CPI figures from April 2020 onward are Bank staff estimates and exclude the effects of measures such as free higher education.

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

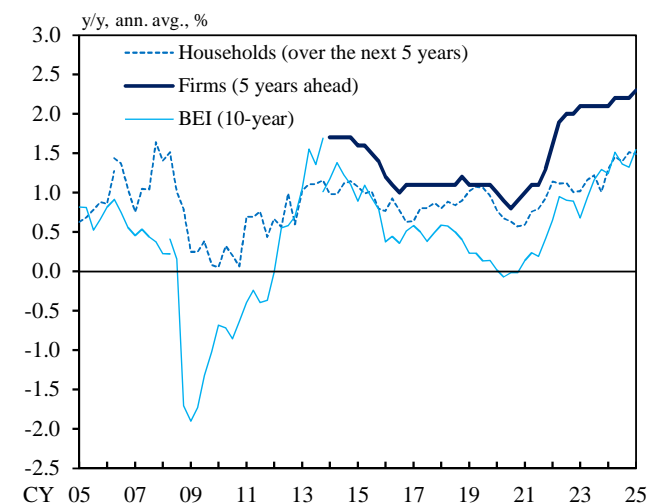
Inflation Expectations

Distribution of Actual Price Changes



Note: Figures are based on the year-on-year price changes for each CPI item.
Source: Ministry of Internal Affairs and Communications.

Survey Results and BEI



Notes: 1. Figures for households are from the *Opinion Survey on the General Public's Views and Behavior*, estimated using the modified Carlson-Parkin method for a 5-choice question.
2. Figures for firms show the inflation outlook of enterprises for general prices (all industries and enterprises, average) in the *Tankan*.
3. The BEI (break-even inflation) rate is the quarterly average of the yield spread between fixed-rate coupon-bearing Japanese government bonds (JGBs) and inflation-indexed JGBs. Figures from 2008/Q2 to 2013/Q4 are calculated using yield data for issue No. 16 of inflation-indexed JGBs, which matured in June 2018.

Sources: Bloomberg; Bank of Japan.

Outlook for Economic Activity and Prices (as of January 2025)

y/y % chg.

	Real GDP	CPI (all items less fresh food)	(Reference) CPI (all items less fresh food and energy)
Fiscal 2024	+0.4 to +0.6 [+0.5]	+2.6 to +2.8 [+2.7]	+2.1 to +2.3 [+2.2]
Forecasts made in October 2024	+0.5 to +0.7 [+0.6]	+2.4 to +2.5 [+2.5]	+1.9 to +2.1 [+2.0]
Fiscal 2025	+0.9 to +1.1 [+1.1]	+2.2 to +2.6 [+2.4]	+2.0 to +2.3 [+2.1]
Forecasts made in October 2024	+1.0 to +1.2 [+1.1]	+1.7 to +2.1 [+1.9]	+1.8 to +2.0 [+1.9]
Fiscal 2026	+0.8 to +1.0 [+1.0]	+1.8 to +2.1 [+2.0]	+1.9 to +2.2 [+2.1]
Forecasts made in October 2024	+0.8 to +1.1 [+1.0]	+1.8 to +2.0 [+1.9]	+1.9 to +2.2 [+2.1]

Note: Figures in brackets indicate the medians of the Policy Board members' forecasts (point estimates).
Source: Bank of Japan.

Decision at the January 2025 MPM

Japan's economic activity and prices have been **developing generally in line with the Bank's outlook**, and **the likelihood of realizing the outlook has been rising**.

Medians of the Policy Board Members' Forecasts (y/y % chg.)

	Fiscal 2024	Fiscal 2025	Fiscal 2026
Real GDP	0.5 (-0.1)	1.1 (—)	1.0 (—)
CPI (all items less fresh food)	2.7 (+0.2)	2.4 (+0.5)	2.0 (+0.1)
CPI (all items less fresh food and energy)	2.2 (+0.2)	2.1 (+0.2)	2.1 (—)

Note: Figures in parentheses indicate changes from the October 2024 Outlook Report.

Wages

- Firms have expressed the view that they will **continue to raise wages steadily**, following the solid wage increases last year.

Prices

- With wages continuing to rise, **underlying CPI inflation has been increasing gradually toward 2 percent**.
- CPI inflation is likely to be at around 2.5 percent for fiscal 2025, due to the higher import prices stemming from the yen's depreciation etc.

Overseas economies

- Global financial and capital markets have been **stable on the whole**, while attention has been drawn to various uncertainties.

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 0.5%"

(uncollateralized overnight call rate)

(previously "around 0.25%")

- 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 January Outlook Report will be realized, the Bank will accordingly continue to raise the policy interest rate and adjust the degree of monetary accommodation.