



# Economic Activity, Prices, and Monetary Policy in Japan

*Speech at a Meeting with Local Leaders in Yamaguchi*

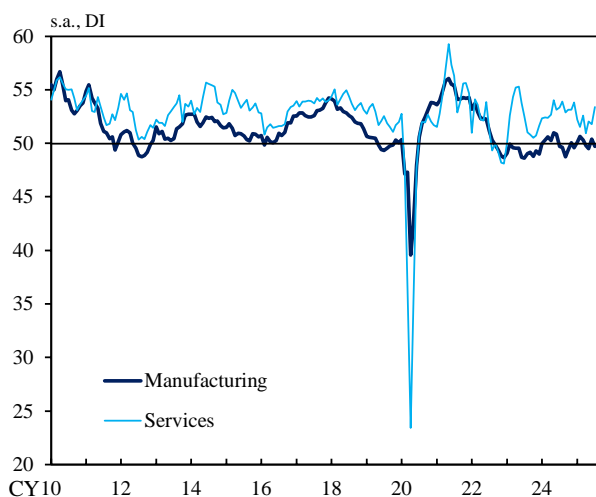
August 28, 2025

NAKAGAWA Junko  
Member of the Policy Board  
Bank of Japan

Chart 1

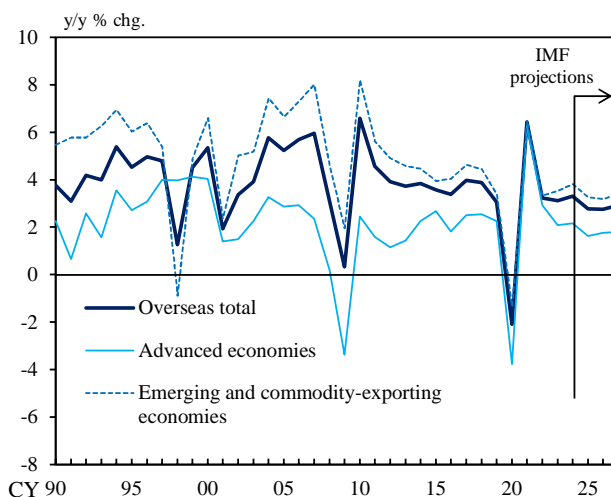
## Overseas Economies

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.  
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Outlook

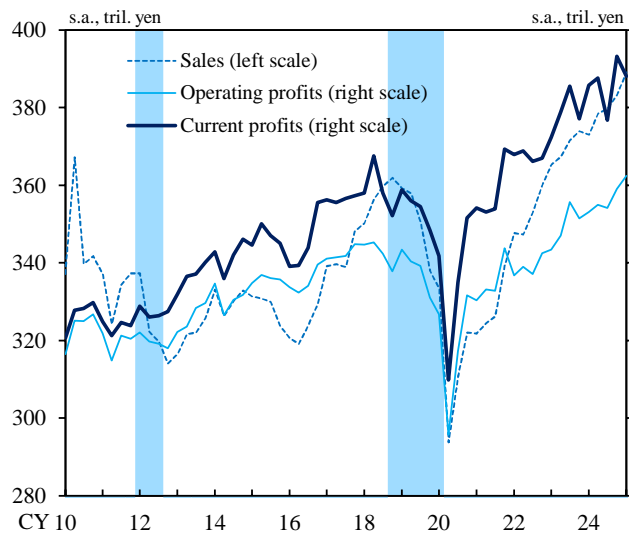


Note: Figures are the weighted averages of real GDP growth rates using countries' share in Japan's exports as weights. The real GDP growth rates are compiled by the IMF, and the rates from 2025 onward are its projections in the April 2025 WEO and the July 2025 WEO Update. Figures for advanced economies 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



## Coincident Indicators of Business Fixed Investment

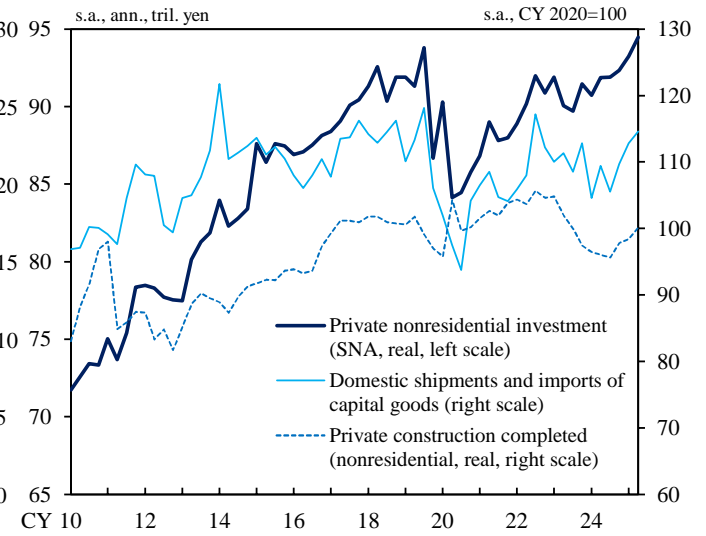
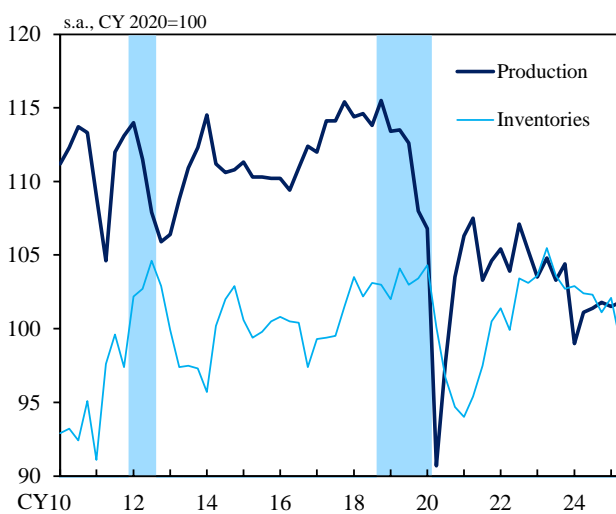


Chart 3

# Corporate Sector in Japan

## Industrial Production



## Real Exports and Imports

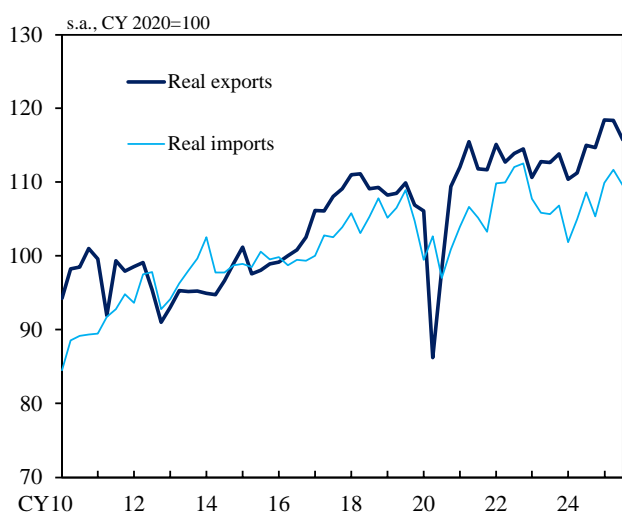
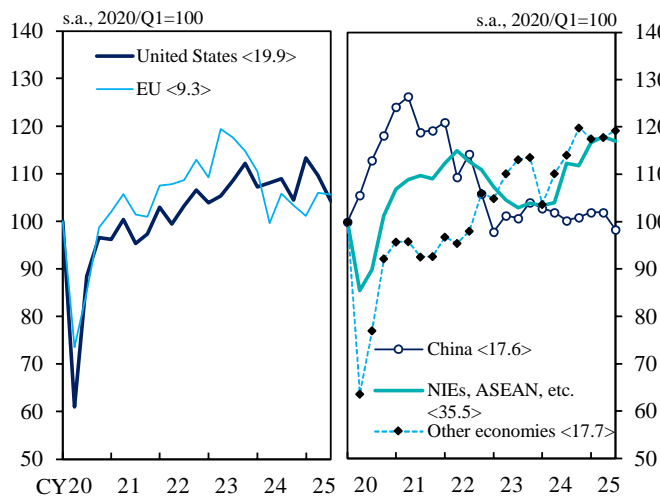


Chart 4

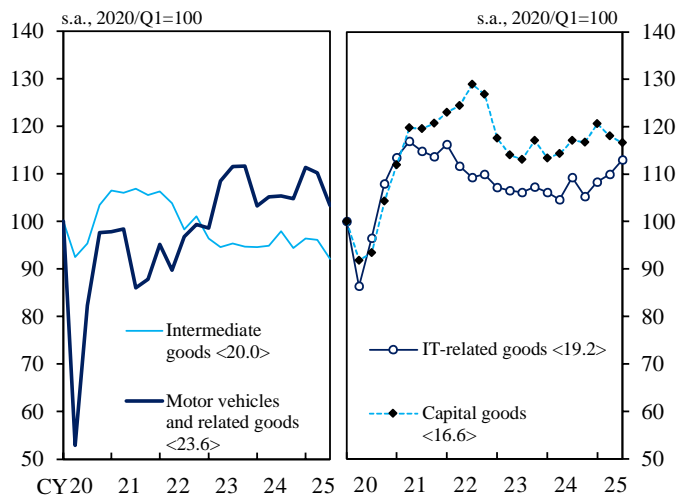
# Corporate Sector in Japan

## Real Exports by Region



Notes: 1. Based on Bank staff calculations. Figures in angle brackets show the share of each country or region in Japan's total exports in 2024. Figures for 2025/Q3 are those for July.  
2. Figures for the EU exclude those for the United Kingdom for the entire period.  
Sources: Ministry of Finance; Bank of Japan.

## Real Exports by Type of Goods

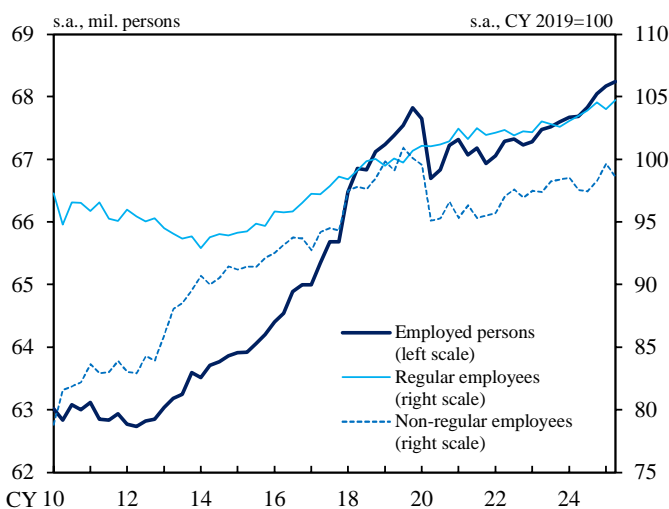


Notes: 1. Based on Bank staff calculations. Figures in angle brackets show the share of each type of goods in Japan's total exports in 2024. Figures for 2025/Q3 are those for July.  
2. "Motor vehicles and related goods" includes motor vehicles, parts for motor vehicles, and power generating machinery. "IT-related goods" includes computers and computer units, telecommunication machinery, semiconductors, audio and visual apparatus, and medical and optical instruments. "Capital goods" includes metalworking machinery, construction machines, electrical power machinery, semiconductor production equipment, and ships.  
Sources: Ministry of Finance; Bank of Japan.

Chart 5

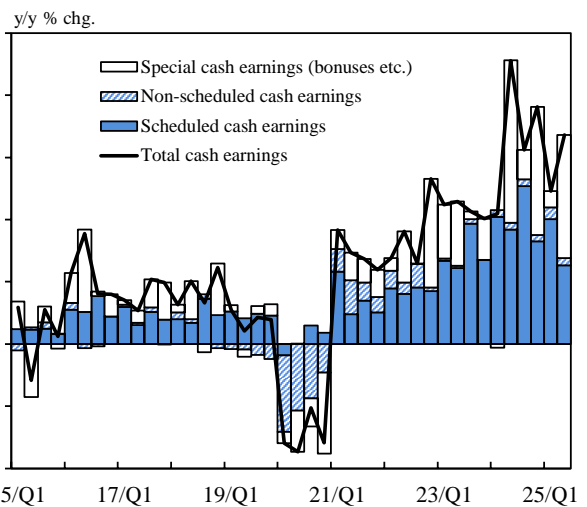
# Employment and Income Situation in Japan

## 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.  
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. Figures for 2025/Q2 are those for June.  
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

## Results of Spring Wage Negotiations

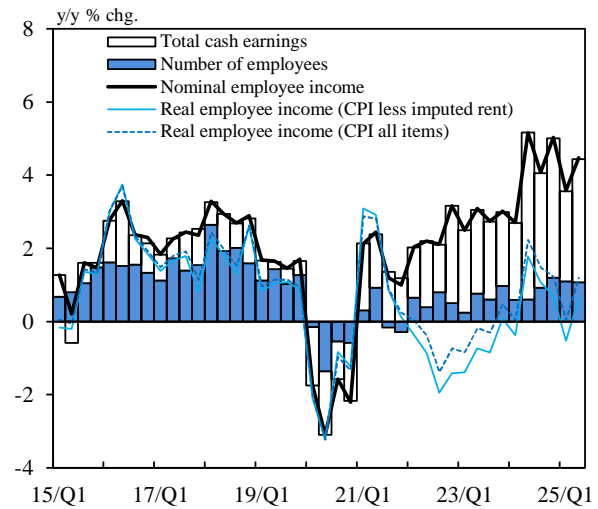
	total wage increase, y/y % chg.			
	2022	2023	2024	2025
Regular employees	2.1	3.6	5.1	5.3
Large firms	2.1	3.6	5.2	5.3
1,000 or more	2.1	3.7	5.2	5.4
300 to 999	2.0	3.4	5.0	5.1
Small and medium-sized firms	2.0	3.2	4.5	4.7
100 to 299	2.0	3.3	4.6	4.8
99 or less	1.9	2.9	4.0	4.4
Part-time employees	2.3	5.1	5.7	5.8
CPI (less fresh food)	2.3	3.1	2.5	3.3

Notes: 1. The figures for the breakdown by the number of regular employees are aggregated values based on the number of union members. Part-time employees include fixed-term employees.

2. The CPI figure for 2025 is the January-July average.

Sources: Japanese Trade Union Confederation (Rengo); Ministry of Internal Affairs and Communications.

## Employee Income



Notes: 1. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Figures for 2025/Q2 are those for June.

2. Nominal employee income = Total cash earnings (Monthly Labour Survey) × Number of employees (Labour Force Survey)

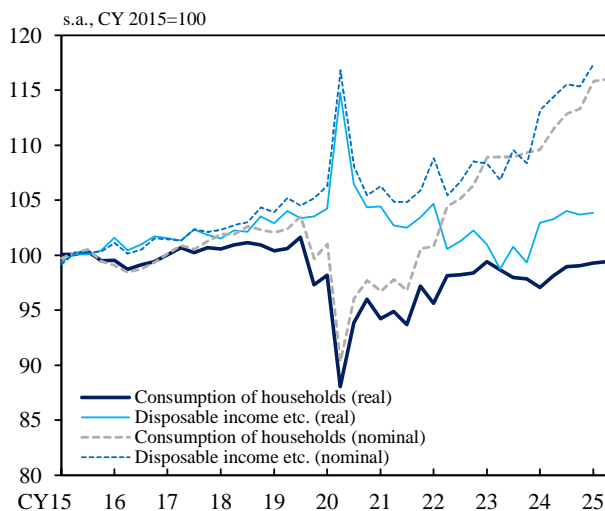
3. Figures from 2016/Q1 onward are based on continuing observations following the sample revisions of the Monthly Labour Survey.

4. Figures for real employee income are based on Bank staff calculations using the price indicators shown in parentheses.

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

# Private Consumption in Japan

## Real Private Consumption

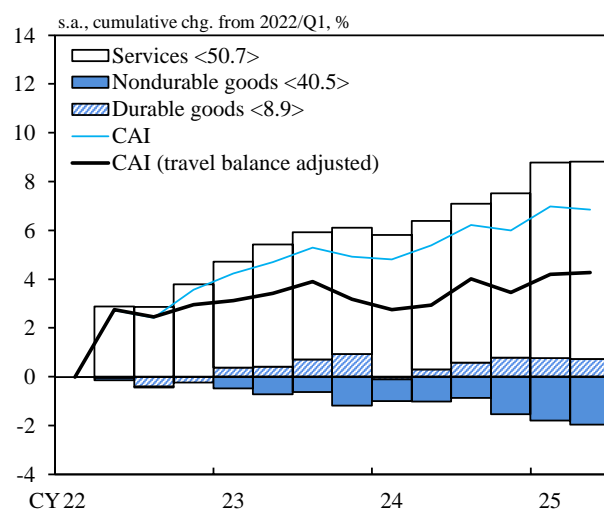


Notes: 1. Figures for consumption of households exclude imputed rent.

2. "Disposable income etc." consists of disposable income and adjustment for the change in pension entitlements. Real values are based on Bank staff calculations using the deflator of consumption of households.

Source: Cabinet Office.

## Real Private Consumption by Type



Notes: 1. Based on Bank staff calculations. Figures for the CAI (travel balance adjusted) exclude inbound tourism consumption and include outbound tourism consumption.

2. Nondurable goods include goods classified as semi-durable goods in the SNA.

3. Figures in angle brackets show the weights in the CAI.

Sources: Bank of Japan; etc.

# Inflation Indicators

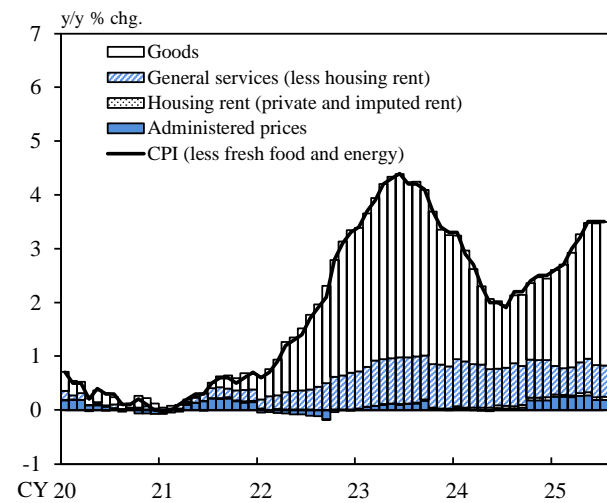
## Inflation Indicators

	y/y % chg.			
	24/Q4	25/Q1	25/Q2	25/Q3
<b>CPI</b>				
Less fresh food	2.6	3.1	3.5	3.1
Less fresh food and energy	2.3	2.7	3.2	3.4
Less food and energy	1.6	1.5	1.6	1.6
<b>PPI</b>	3.8	4.2	3.4	2.6
<b>SPPI</b>	3.2	3.5	3.5	3.0
<b>GDP deflator</b>	2.9	3.3	3.0	
<b>Domestic demand deflator</b>	2.4	2.7	2.2	

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. Figures for "food" in the CPI exclude those for alcoholic beverages.  
 3. Figures for 2025/Q3 are those for July.

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

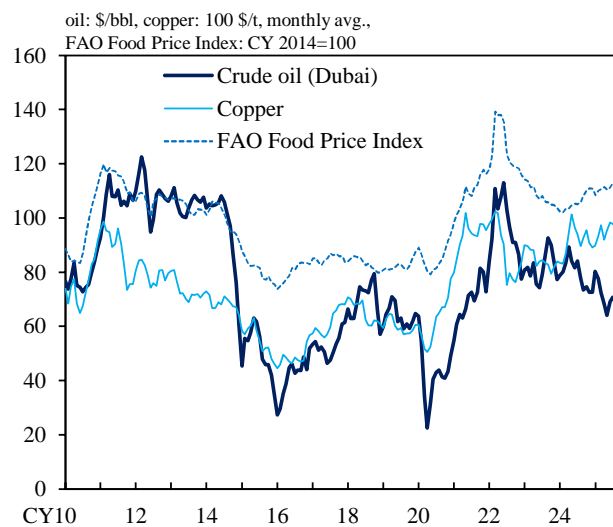
## CPI (Excluding Temporary Factors)



Notes: 1. Administered prices consist of public services and water charges.  
 2. The CPI figures are Bank staff estimates and exclude the effects of the consumption tax hike, free education policies, travel subsidy programs, and mobile phone charges.  
 Source: Ministry of Internal Affairs and Communications.

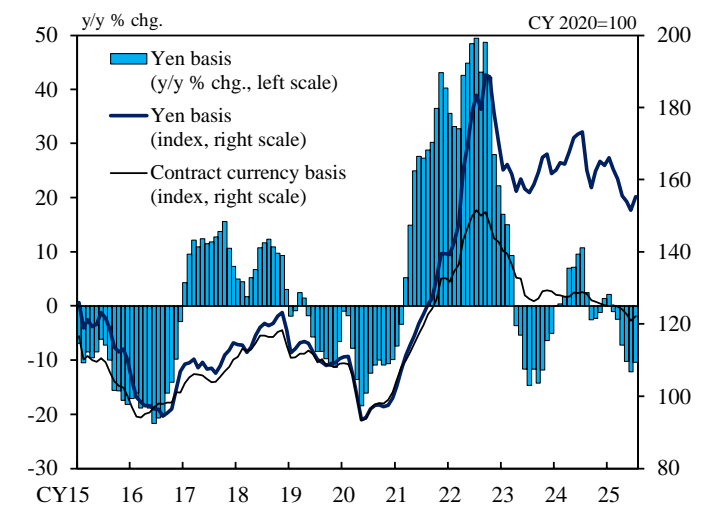
# Factors Affecting Consumer Prices

## International Commodity Prices



Note: The FAO Food Price Index consists of the price indices of cereals, vegetable oils, sugar, meat, and dairy products.  
 Sources: Bloomberg; FAO; Nikkei Inc.

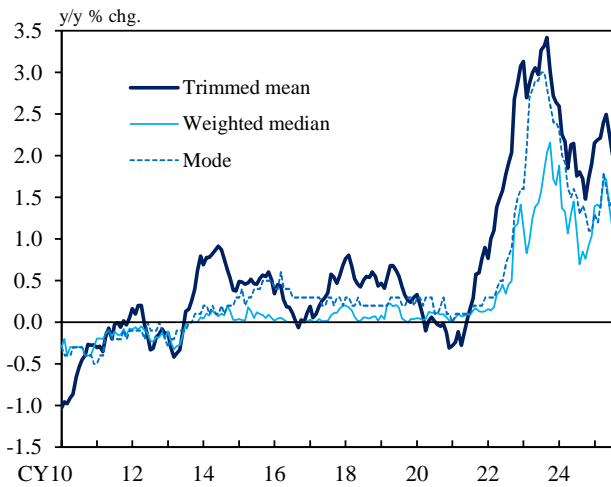
## Import Price Index



Source: Bank of Japan.

# Core Indicators of the CPI

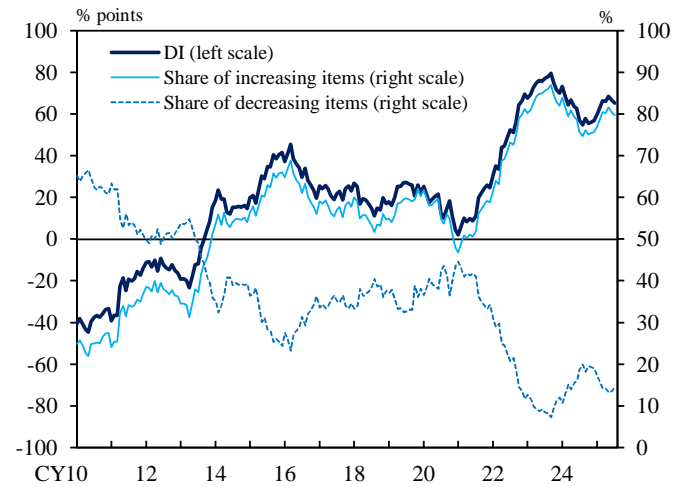
## Trimmed Mean etc.



Notes: 1. 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.  
2. The trimmed mean is calculated by excluding items that belong to a certain percentage of the upper and lower tails of the price change distribution (10 percent of each tail) in order to eliminate the effects of large relative price changes. The mode is the inflation rate with the highest density in the price change distribution. The weighted median is the average of the inflation rates of the items at around the 50 percentile point of the cumulative distribution in terms of weight.

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

## DI of Price Changes

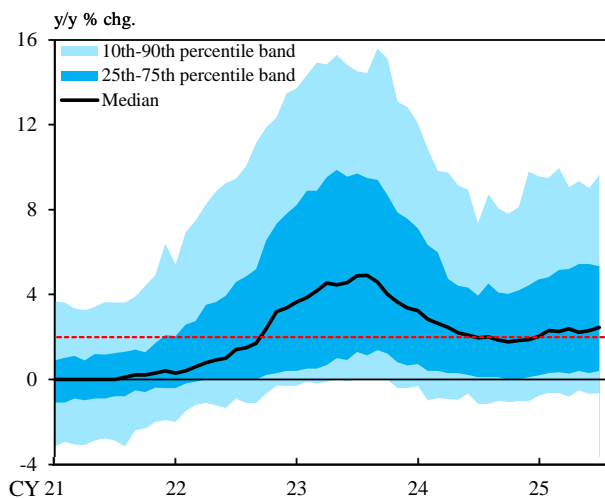


Note: The diffusion index (DI) is defined as the share of increasing items minus the share of decreasing items. The share of increasing/decreasing items is the share of items for which price indices increased/decreased from a year earlier. Based on Bank staff calculations using the CPI (less fresh food) 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.

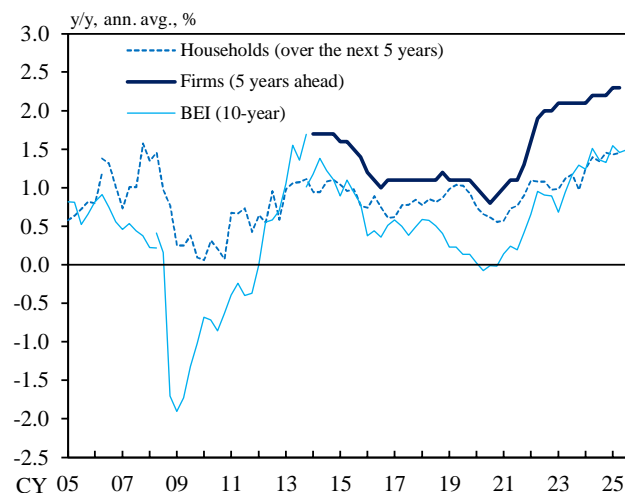
# Inflation Expectations

## 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

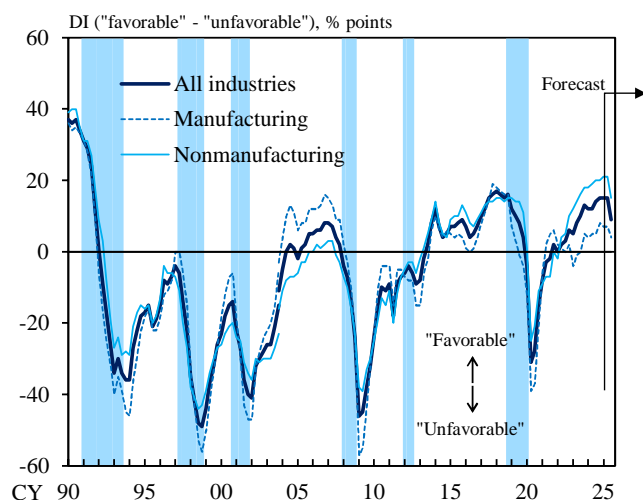


Notes: 1. Figures for households are from the *Opinion Survey on the General Public's Views and Behavior*, estimated using the modified Carlson-Parkin method for a 5-choice question.  
2. Figures for firms show the inflation outlook of enterprises for general prices (all industries and enterprises, average) in the *Tankan*.  
3. The BEI (break-even inflation) rate is the quarterly average of the yield spread between fixed-rate coupon-bearing 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.

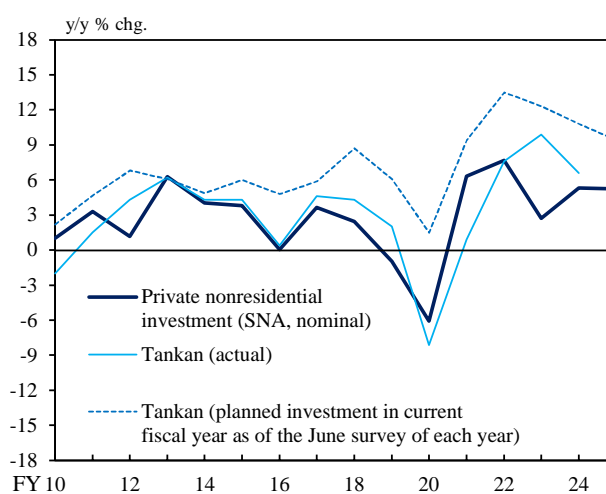
## Business Conditions and Fixed Investment (June 2025 *Tankan*)

### Business Conditions



Notes: 1. Based on the *Tankan*. All enterprises. There is a discontinuity in the data for December 2003 due to a change in the survey framework.  
2. Shaded areas denote recession periods.  
Source: Bank of Japan.

### Planned and Actual Business Fixed Investment



Notes: 1. The *Tankan* figures include investments in software and research and development (R&D) but exclude land purchasing expenses. R&D investment is not included before the March 2017 survey. The figures are for all industries including financial institutions.  
2. The figure for private nonresidential investment for fiscal 2025 is that for 2025/Q2.  
Sources: Cabinet Office; Bank of Japan.

## Outlook for Economic Activity and Prices (as of July 2025)

y/y % chg.

	Real GDP	CPI (all items less fresh food)	(Reference) CPI (all items less fresh food and energy)
<b>Fiscal 2025</b>	<b>+0.5 to +0.7</b> <b>[+0.6]</b>	<b>+2.7 to +2.8</b> <b>[+2.7]</b>	<b>+2.8 to +3.0</b> <b>[+2.8]</b>
Forecasts made in April 2025	+0.4 to +0.6 [+0.5]	+2.0 to +2.3 [+2.2]	+2.2 to +2.4 [+2.3]
<b>Fiscal 2026</b>	<b>+0.7 to +0.9</b> <b>[+0.7]</b>	<b>+1.6 to +2.0</b> <b>[+1.8]</b>	<b>+1.7 to +2.1</b> <b>[+1.9]</b>
Forecasts made in April 2025	+0.6 to +0.8 [+0.7]	+1.6 to +1.8 [+1.7]	+1.7 to +2.0 [+1.8]
<b>Fiscal 2027</b>	<b>+0.9 to +1.0</b> <b>[+1.0]</b>	<b>+1.8 to +2.0</b> <b>[+2.0]</b>	<b>+2.0 to +2.1</b> <b>[+2.0]</b>
Forecasts made in April 2025	+0.8 to +1.0 [+1.0]	+1.8 to +2.0 [+1.9]	+1.9 to +2.1 [+2.0]

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

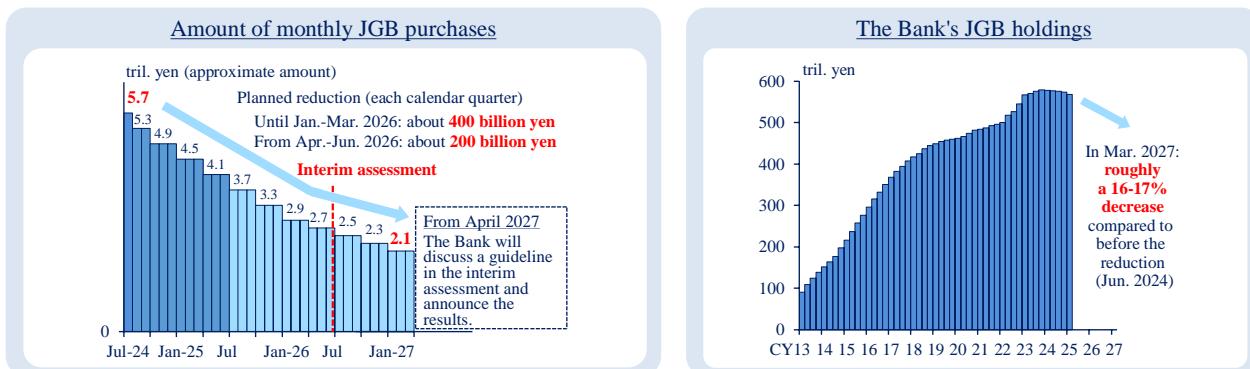
## Plan for the Reduction of the Purchase Amount of JGBs (June 2025)

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

In principle, the Bank will reduce the planned amount of its monthly purchases of JGBs each calendar quarter as follows.

- Until January-March 2026 : about **400 billion yen** (the reduction plan decided in July 2024 will be maintained)
- From April-June 2026 to January-March 2027: about **200 billion yen**
- The Bank will **gradually reduce** its purchase amount so that it can improve the functioning of the JGB markets in a manner that supports stability in the markets.

### Reduction in a Predictable Manner



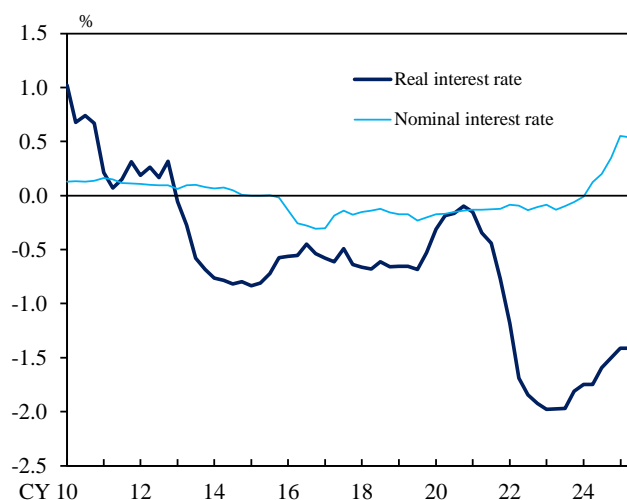
### Allowing Enough Flexibility

1. The Bank will **conduct an interim assessment of the plan at the June 2026 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.

Chart 15

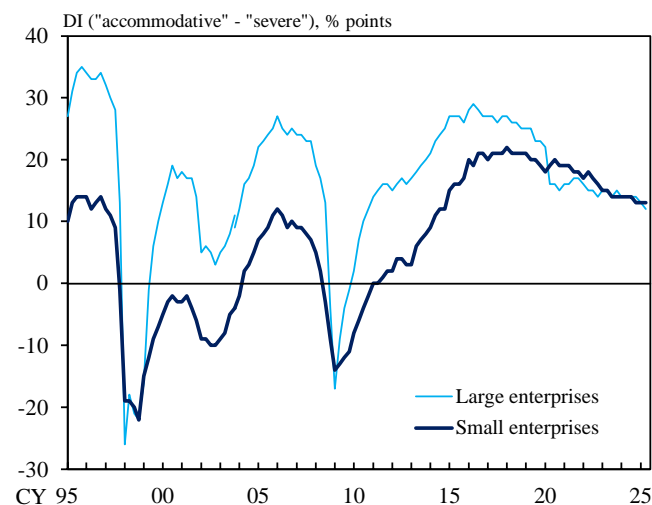
## Financial Conditions in Japan

### Real Interest Rate (1-Year)



Note: Figures for the real interest rate are calculated as government bond yields (1-year) minus the composite index of inflation expectations (Bank staff estimates).  
 Sources: Bloomberg; Consensus Economics Inc., Consensus Forecasts; QUICK, QUICK Monthly Market Survey <Bonds>; Bank of Japan.

### Lending Attitudes of Financial Institutions as Perceived by Firms



Note: Figures are based on the *Tankan* and are for all industries. There is a discontinuity in the data for December 2003 due to a change in the survey framework.  
 Source: Bank of Japan.