



Economic Activity, Prices, and Monetary Policy in Japan

Speech at a Meeting with Local Leaders in Fukuoka

May 21, 2026

KOEDA Junko

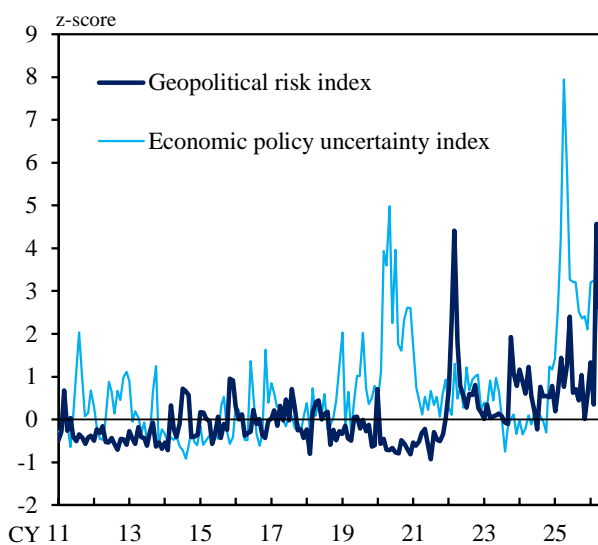
Member of the Policy Board

Bank of Japan

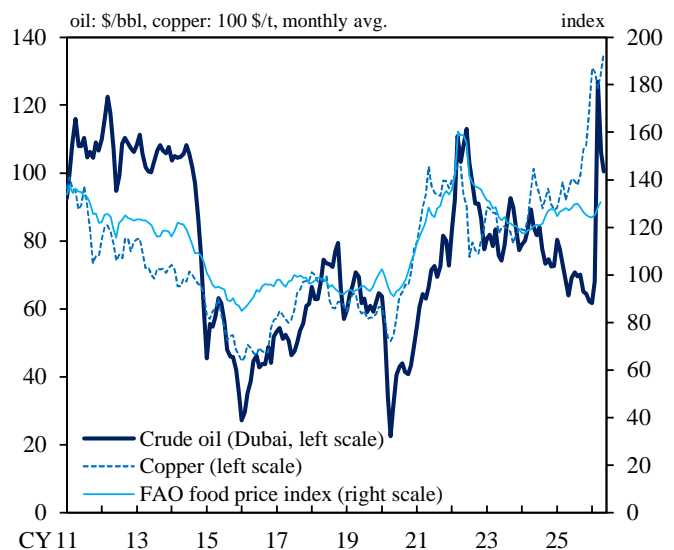
Chart 1

Geopolitical Risks and Commodity Prices

*Geopolitical Risks and
Economic Policy Uncertainties*



International Commodity Prices

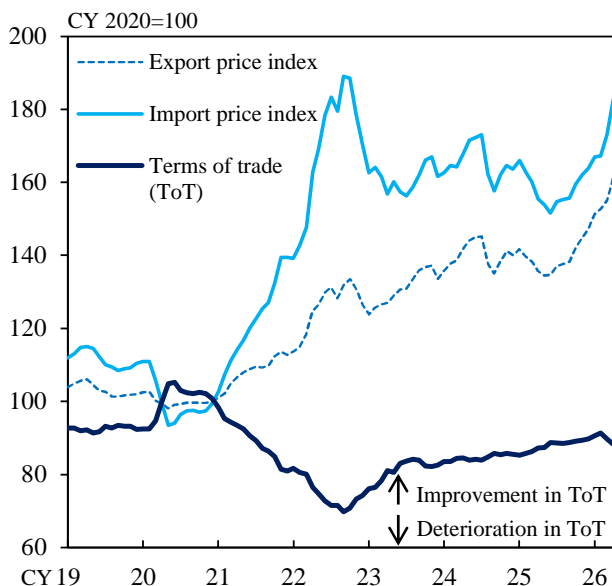


Notes: 1. In the left panel, figures are normalized using the average and standard deviation for the period from 1985 onward. Figures for the geopolitical risk index are global figures, while those for the economic policy uncertainty index are those for the United States.
2. In the right panel, the FAO food price index is a price index comprising meat, dairy, cereals, vegetable oils, and sugar (CY 2014-2016 average=100).

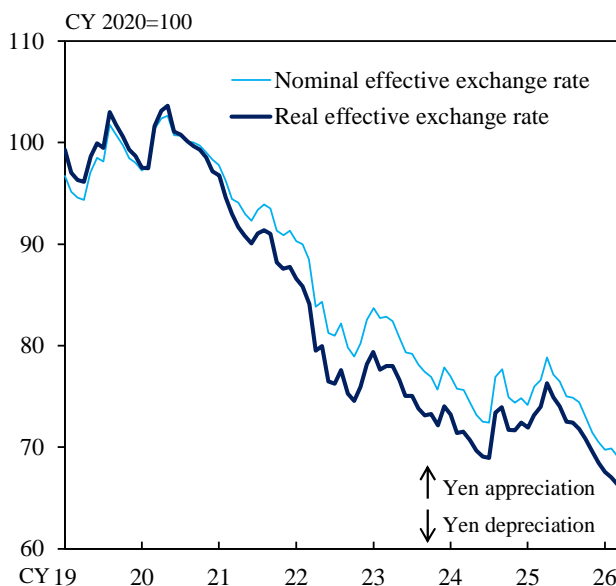
Sources: Bloomberg; Caldara, D. and Iacoviello, M., <https://www.matteoiacoviello.com/gpr.htm>; Economic Policy Uncertainty; FAO; Nikkei Inc.

Terms of Trade and Effective Exchange Rates

Terms of Trade



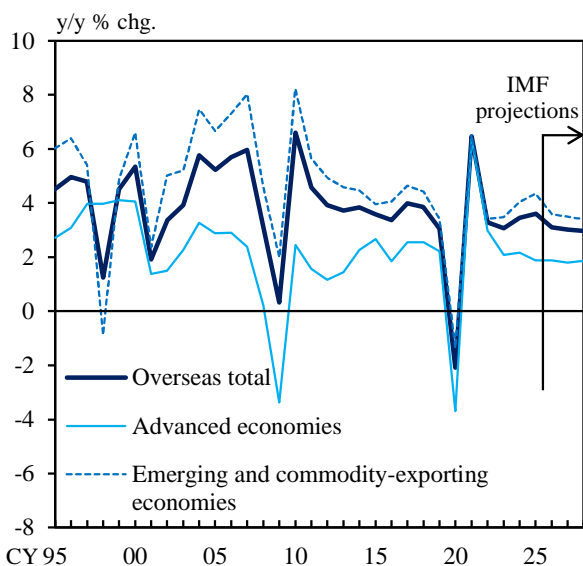
Effective Exchange Rates



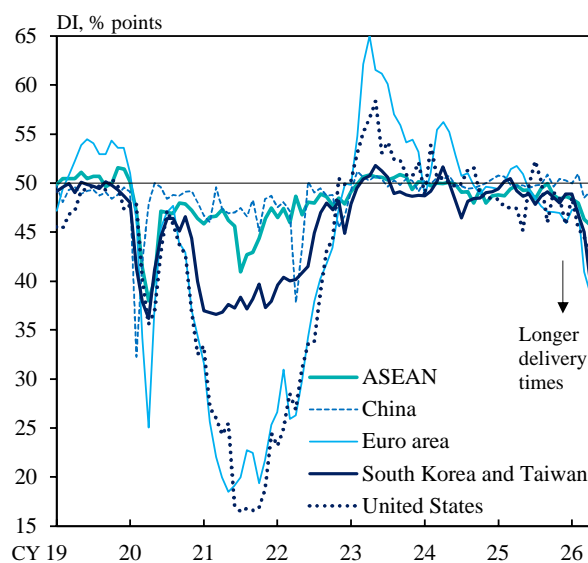
Notes: 1. In the left panel, both the export and import price indices are on a yen basis.
 $ToT = \text{Export price index} / \text{Import price index} \times 100$.
 2. In the right panel, figures are based on the broad effective exchange rate indices.
 Sources: BIS; Bank of Japan.

Overseas Economies and Supply-Side Constraints

Overseas Economies

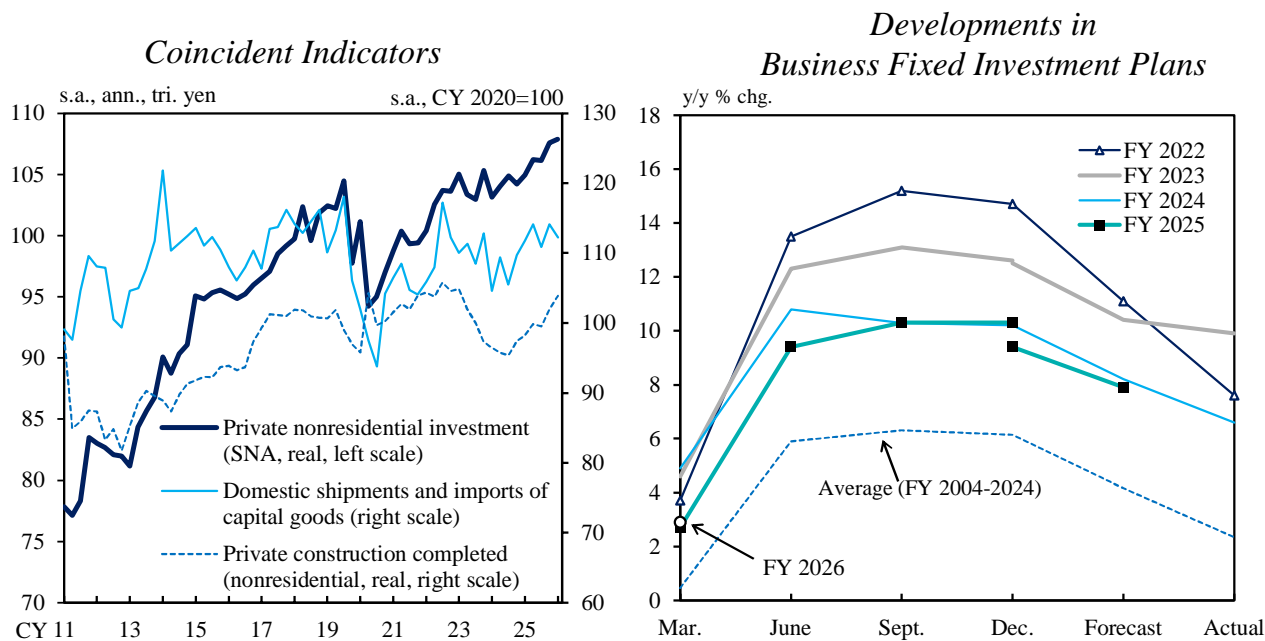


Suppliers' Delivery Times PMI



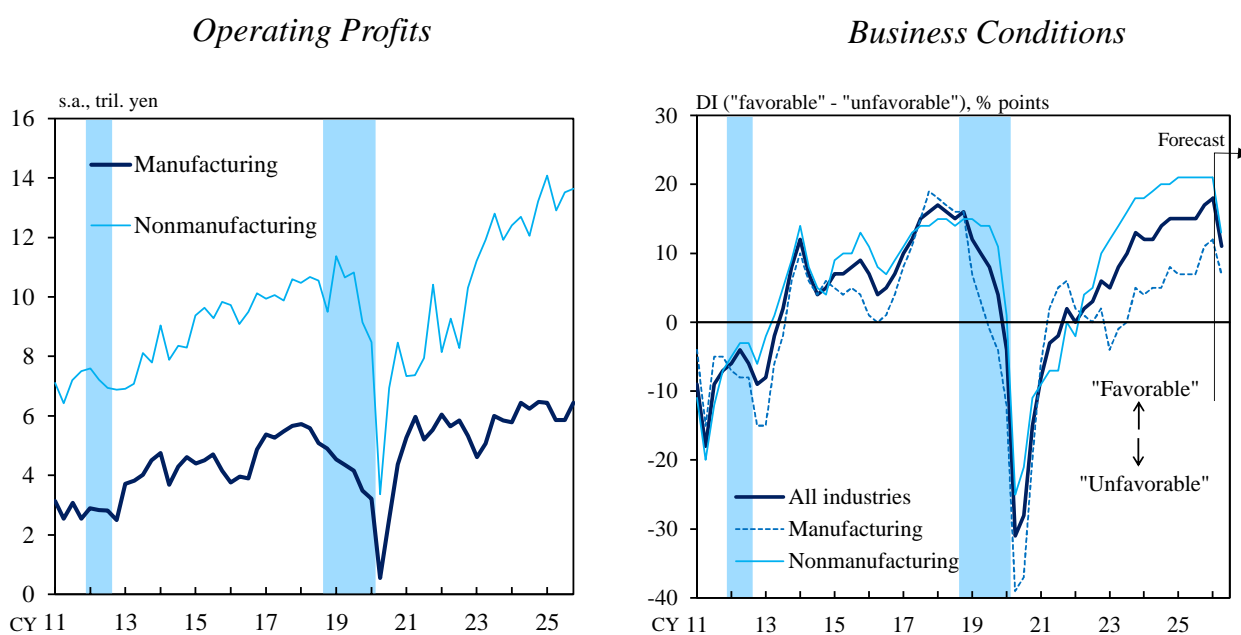
Notes: 1. In the left panel, figures are the weighted averages of real GDP growth rates using countries' share in Japan's exports as weights. The real GDP growth rates are compiled by the IMF, and the rates from 2026 onward are its projections in the April 2026 *World Economic Outlook* (WEO). Figures 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.
 2. In the right panel, figures for "South Korea and Taiwan" and "ASEAN" are the weighted averages of figures for each country and region, using purchasing power parity (PPP) as weights. Figures for "China" are from the RatingDog China PMI.
 Sources: IMF; Ministry of Finance; Copyright © 2026 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

Business Fixed Investment



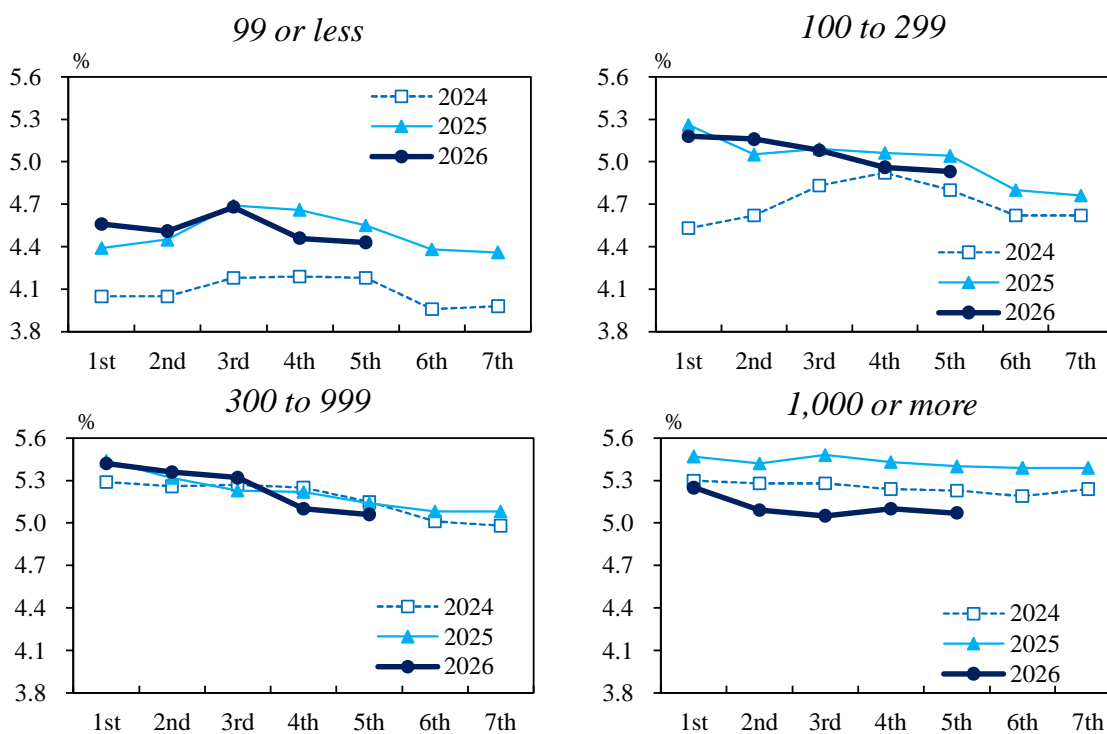
Notes: 1. In the left panel, figures for real private construction completed are based on Bank staff calculations using the construction cost deflators, and those for 2026/Q1 are January-February averages.
 2. In the right panel, figures are based on the *Tankan* and are for all industries including financial institutions. Figures include software and R&D investments and exclude land purchasing expenses. R&D investment is not included before the March 2017 survey. There are discontinuities in the data for December 2023 and December 2025 due to changes in the survey sample.
 Sources: Cabinet Office; Ministry of Economy, Trade and Industry; Ministry of Land, Infrastructure, Transport and Tourism; Bank of Japan.

Corporate Sector



Notes: 1. In the left panel, figures are based on the *Financial Statements Statistics of Corporations by Industry, Quarterly* and exclude "finance and insurance" and "pure holding companies."
 2. In the right panel, figures are based on the *Tankan* and are for all enterprises.
 3. In both panels, shaded areas denote recession periods.
 Sources: Ministry of Finance; Bank of Japan.

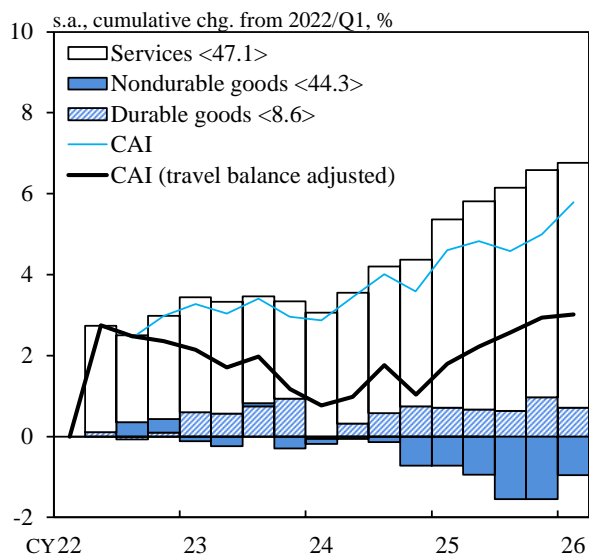
Japan's Annual Spring Wage Negotiations



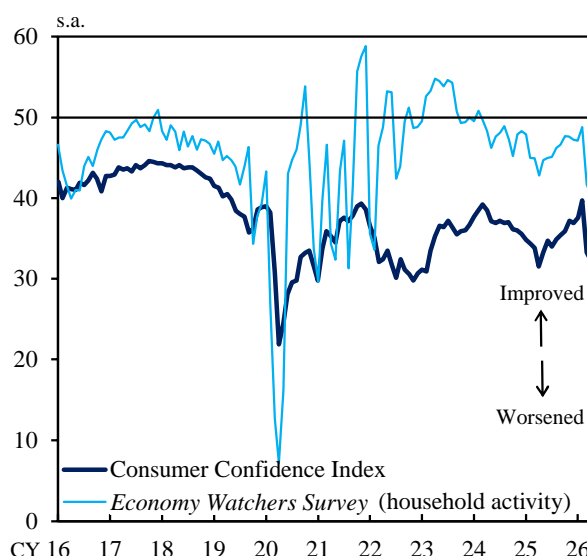
Note: Figures are average wage increase rates including regular pay rises, at each round of Rengo's aggregation from "1st" through "7th." The numbers at the top of each panel are the number of union members.
 Source: Japanese Trade Union Confederation (Rengo).

Household Spending

Consumption Activity Index (CAI, Real)



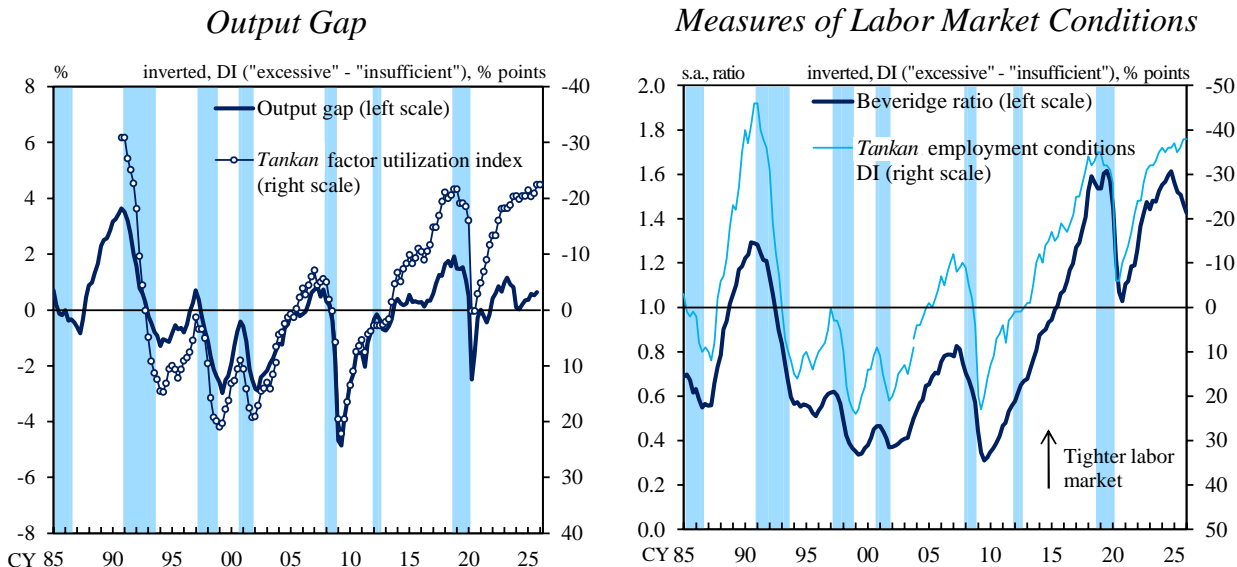
Confidence Indicators



Notes: 1. In the left panel, figures are based on Bank staff calculations. Figures for the CAI (travel balance adjusted) exclude inbound tourism consumption and include outbound tourism consumption. Nondurable goods include goods classified as semi-durable goods in the SNA. Figures in angular brackets show the weights in the CAI. Figures for 2026/Q1 are January-February averages.
 2. In the right panel, figures for the *Economy Watchers Survey* are those for the current economic conditions DI.

Sources: Cabinet Office; Bank of Japan; etc.

Indicators of Supply and Demand Conditions



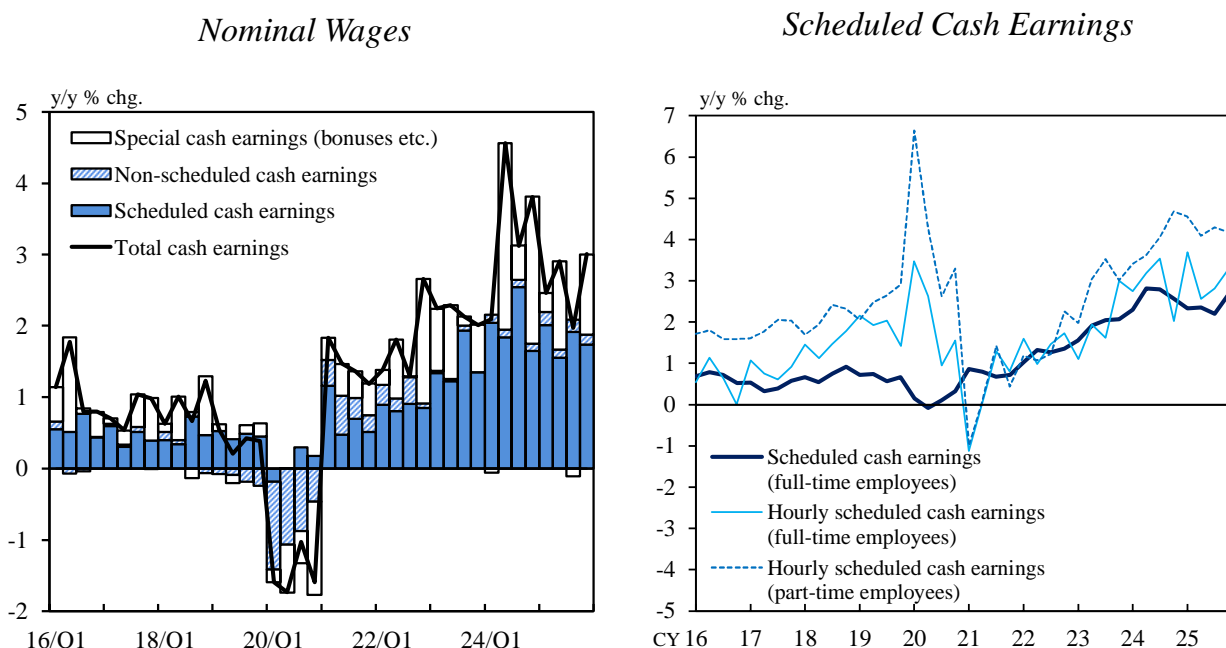
Notes: 1. In the left panel, figures for the output gap are Bank staff estimates. The *Tankan* factor utilization index is calculated as the weighted average of the production capacity DI and the employment conditions DI for all industries and enterprises. The capital and labor shares are used as weights. There is a discontinuity in the data for December 2003 due to a change in the survey framework.

2. In the right panel, Beveridge ratio = Vacancy rate / Unemployment rate excluding self-employed and family workers. Figures are calculated using vacancy rates calculated based on the *Employment Referral Statistics* until 2019/Q4, and using the *Survey on Labour Economy Trend* from 2020/Q1 onward. Figures from 2025/Q3 onward are estimates based on the DI for enterprises' employment conditions in the survey. Figures for the *Tankan* employment conditions DI are for all industries and enterprises. There is a discontinuity in the data for December 2003 due to a change in the survey framework.

3. In both panels, shaded areas denote recession periods.

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

Wages



Notes: 1. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.

2. Figures are based on continuing observations following the sample revisions.

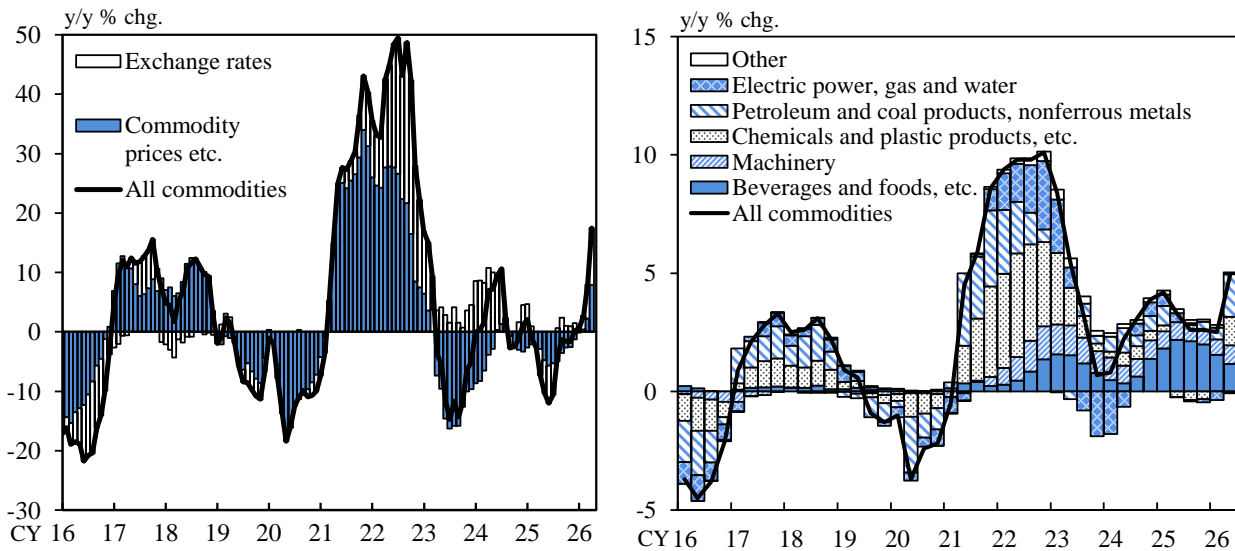
3. In the right panel, figures for hourly scheduled cash earnings (full-time employees) are seasonally adjusted.

Source: Ministry of Health, Labour and Welfare.

Environment Surrounding Prices

Import Prices (Yen Basis)

Producer Price Index



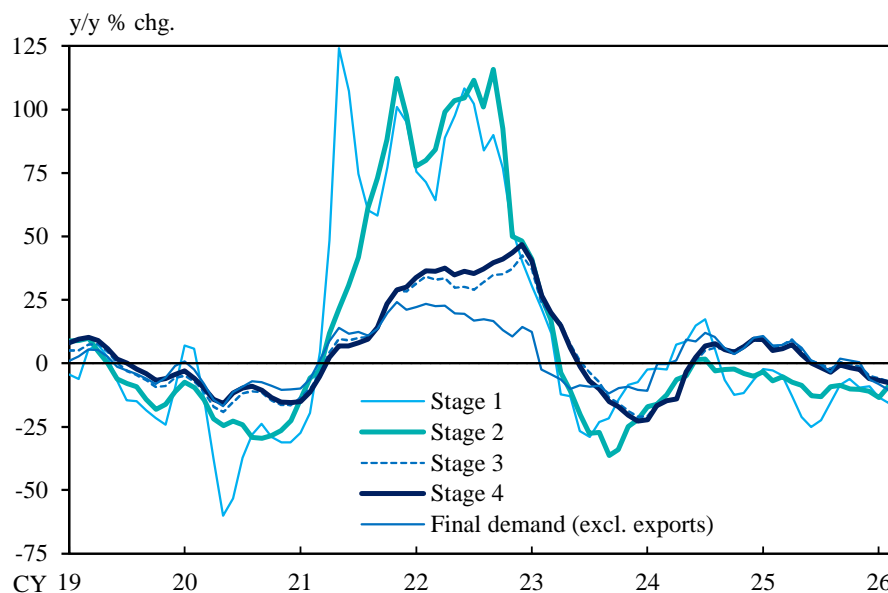
Notes: 1. In the left panel, the contribution of changes in commodity prices etc. is calculated using changes in the import price index on a contract currency basis. The contribution of changes in exchange rates is calculated using the difference between the import price index on a yen basis and that on a contract currency basis.

2. In the right panel, figures exclude the effects of the consumption tax rate change. Figures for "beverages and foods, etc." include agriculture, forestry and fishery products. Figures for 2026/Q2 are those for April.

Source: Bank of Japan.

Price Pass-Through (1)

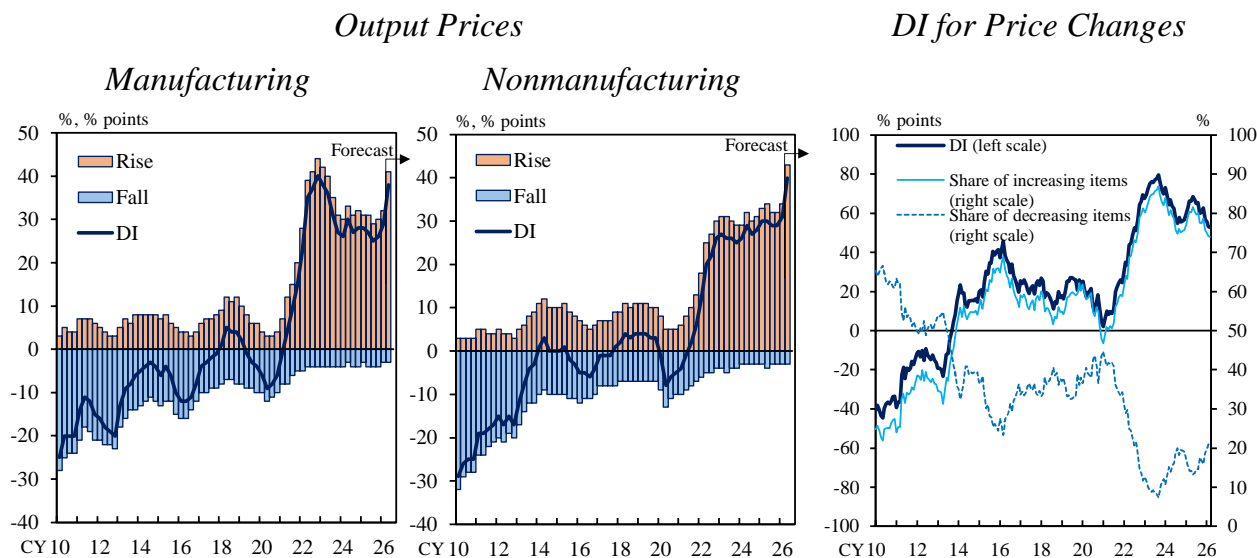
FD-ID (Energy)



Note: The FD-ID indices are price indices that reorganize and aggregate producer prices of goods and services by classifying them from upstream to downstream stages of the economy-wide production flow. Figures show the year-on-year rate of change in the price index of energy goods at each demand stage. Stages 1 to 4 represent the four stages of intermediate demand, from upstream to downstream.

Source: Bank of Japan.

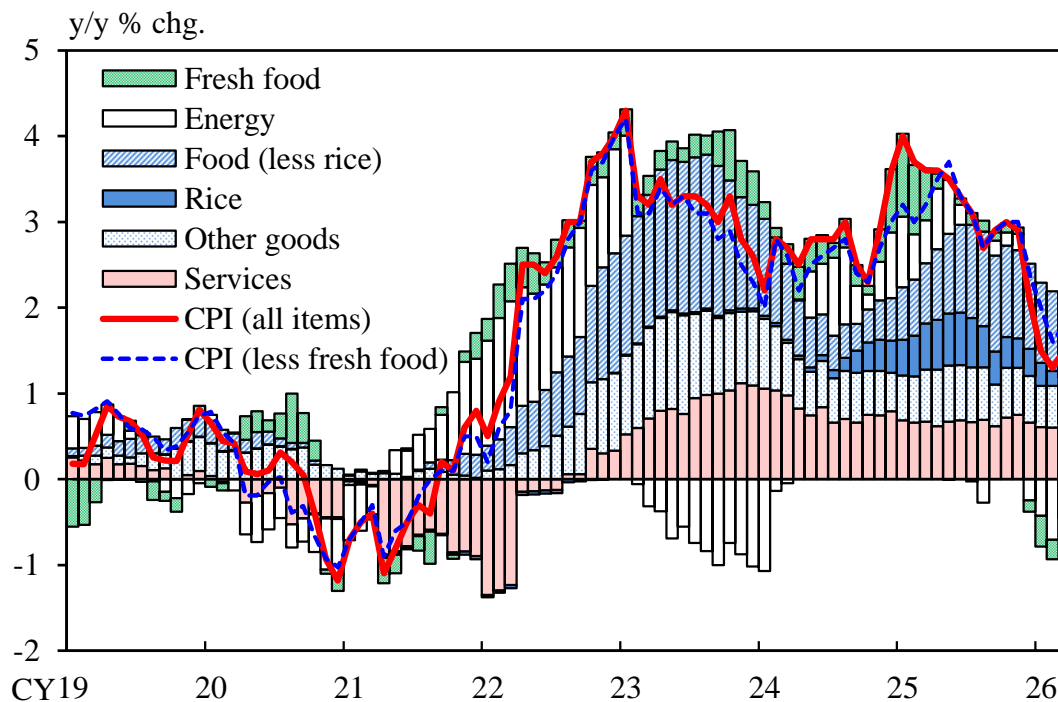
Price Pass-Through (2)



Notes: 1. In the left two panels, figures are based on the *Tankan* and are for all enterprises. The output prices DI is calculated by deducting the percentage of enterprises answering "fall" regarding selling prices of their main products or services from the percentage of those answering "rise."
 2. In the right panel, 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. Figures for the DI are based on Bank staff calculations using the CPI (less fresh food). The CPI figures are Bank staff estimates and exclude the effects of the consumption tax rate changes, policies concerning the provision of free education, and travel subsidy programs.

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

Consumer Price Index (CPI)



Source: Ministry of Internal Affairs and Communications.

Outlook for Economic Activity and Prices (as of April 2026)

Risks regarding the situation in the Middle East

- The situation becoming prolonged, leading to persistently elevated crude oil prices and a deterioration in the terms of trade
- Large-scale disruptions in supply chains, exerting a significant impact on the production activity of Japanese firms

Other risks

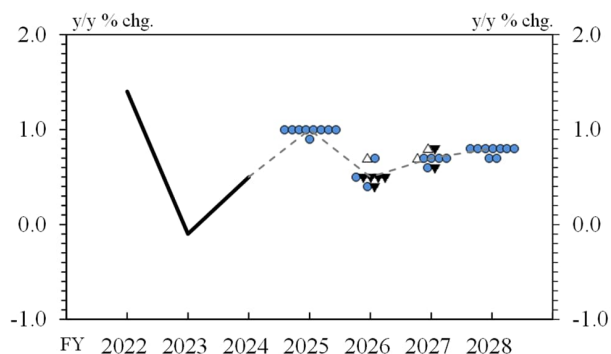
- Developments in overseas economic activity and prices, including AI-related demand
- Future developments in foreign exchange rates and their effects on Japan's economic activity and prices
- Changes affecting firms' and households' expectations and the potential growth rate

Risk balance

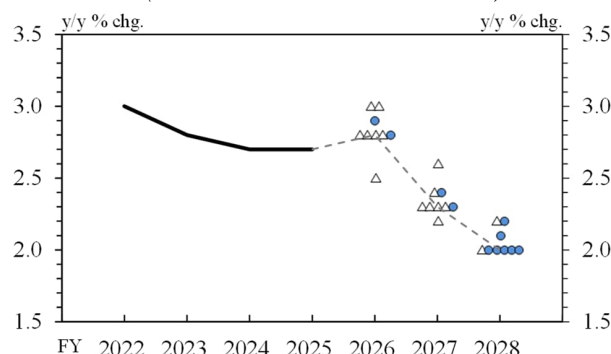
Risks to economic activity are skewed to the downside, and risks to prices are skewed to the upside, particularly for fiscal 2026.

Policy Board Members' Forecasts and Risk Assessments

Real GDP



CPI (All Items Less Fresh Food)

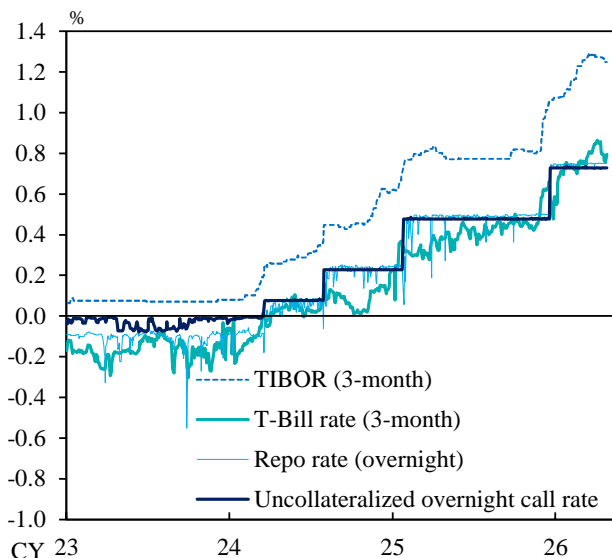


- Notes: 1. The solid lines show actual figures, while the dotted lines show the medians of the Policy Board members' forecasts (point estimates).
 2. The locations of ●, △, and ▼ in the charts indicate the figures for each Policy Board member's forecasts to which they attach the highest probability. The risk balance assessed by each Policy Board member is shown by the following shapes: ● indicates that a member assesses "upside and downside risks as being generally balanced," △ indicates that a member assesses "risks are skewed to the upside," and ▼ indicates that a member assesses "risks are skewed to the downside."

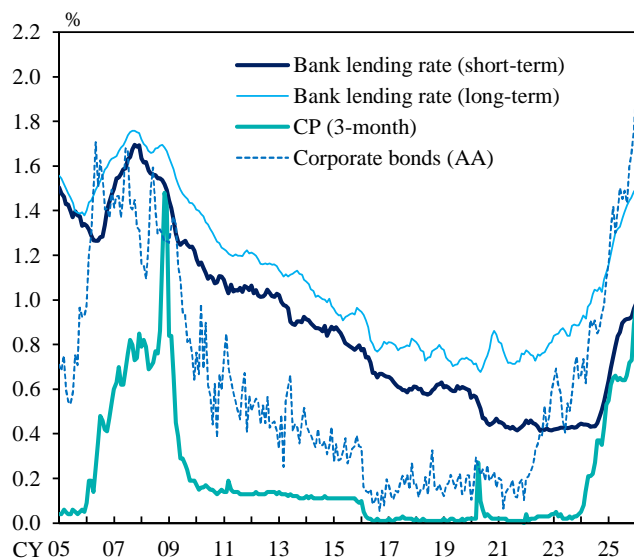
Source: Bank of Japan.

Financial Conditions (1)

Short-term Interest Rates



Bank Lending Rates and Issuance Yields for CP and Corporate Bonds

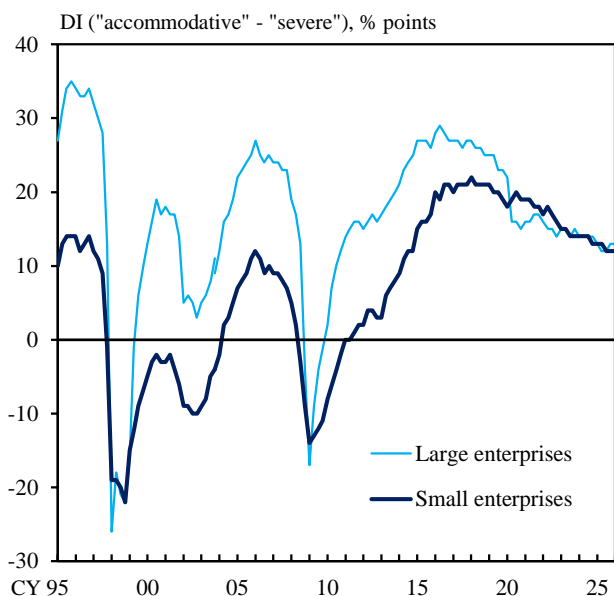


- Notes: 1. In the left panel, figures for repo rate are the *Tokyo Repo Rate*.
 2. In the right panel, figures for issuance yields for CP up through September 2009 are the averages for CP (3-month, rated a-1 or higher). Those from October 2009 onward are the averages for CP (3-month, rated a-1). Figures for issuance yields for corporate bonds are the averages for domestically issued bonds launched on a particular date. Bonds issued by banks and securities companies, etc. are excluded. Figures for bank lending rates are 6-month backward moving averages.

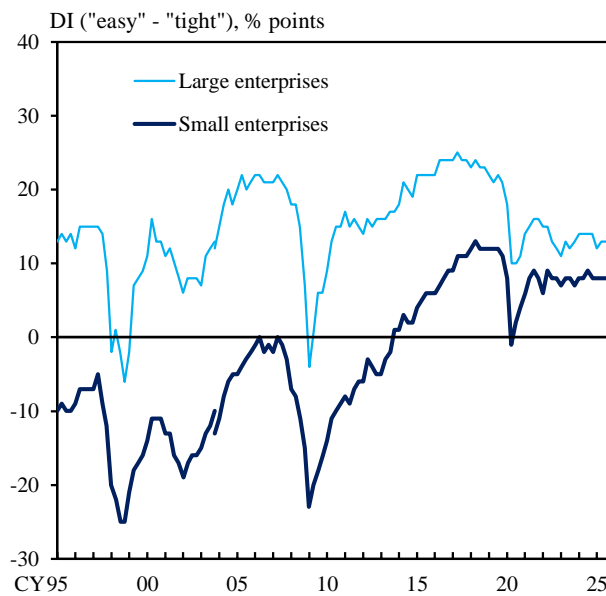
Sources: Bloomberg; Capital Eye; I-N Information Systems; Japan Securities Depository Center; JBA TIBOR Administration; Bank of Japan.

Financial Conditions (2)

Lending Attitudes of Financial Institutions as Perceived by Firms



Firms' Financial Positions

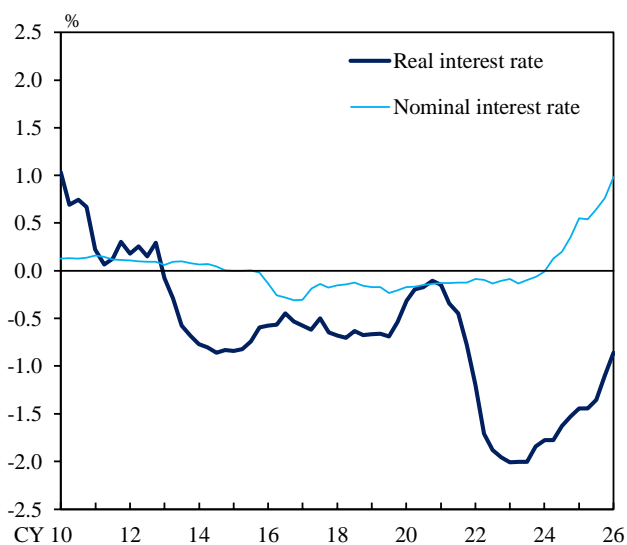


Note: Figures are based on the *Tankan* and are for all industries. There is a discontinuity in the data for December 2003 due to a change in the survey framework.

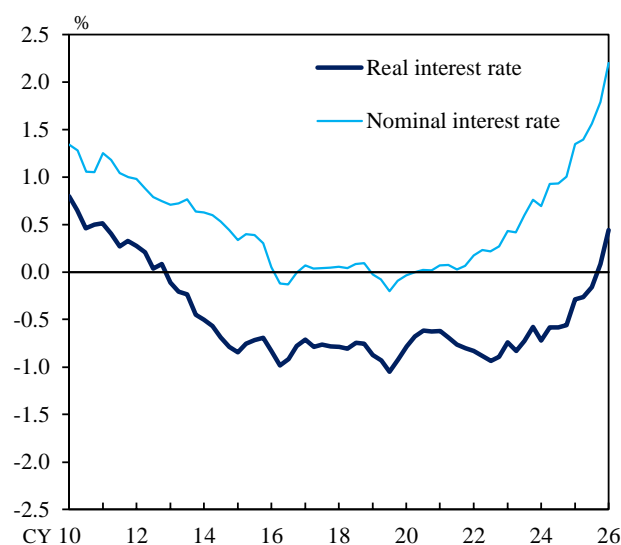
Source: Bank of Japan.

Real Interest Rates by Maturity

1-Year



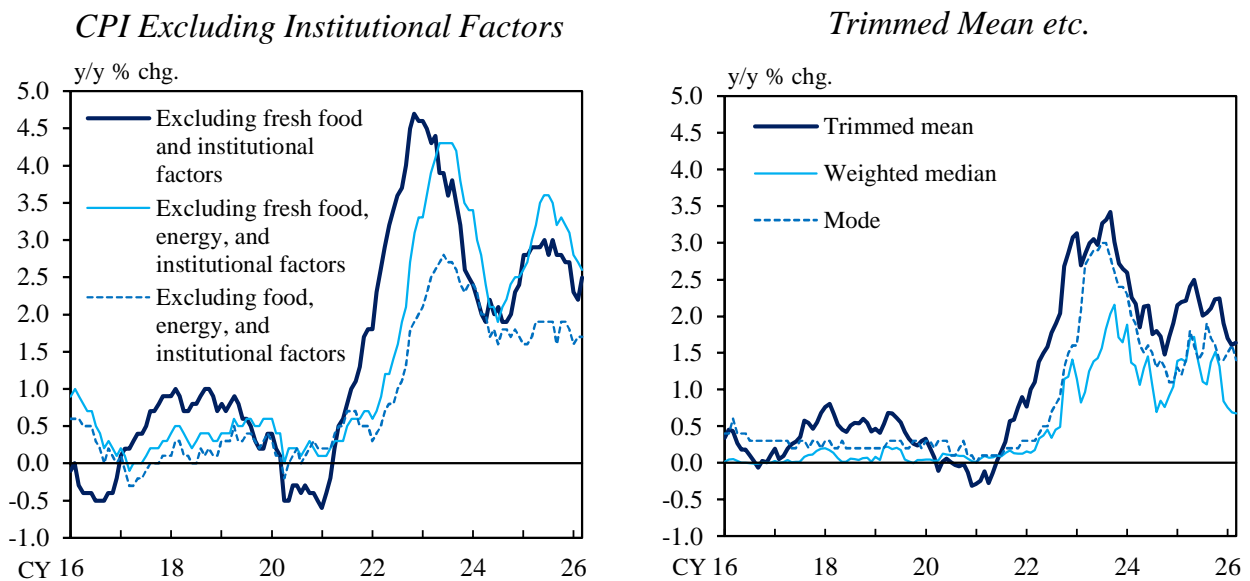
10-Year



Note: Figures for real interest rates for each maturity are calculated as government bond yields minus the composite index of inflation expectations (Bank staff estimates) for the corresponding maturity.

Sources: Bloomberg; Consensus Economics Inc., *Consensus Forecasts*; QUICK, *QUICK Monthly Market Survey <Bonds>*; Bank of Japan.

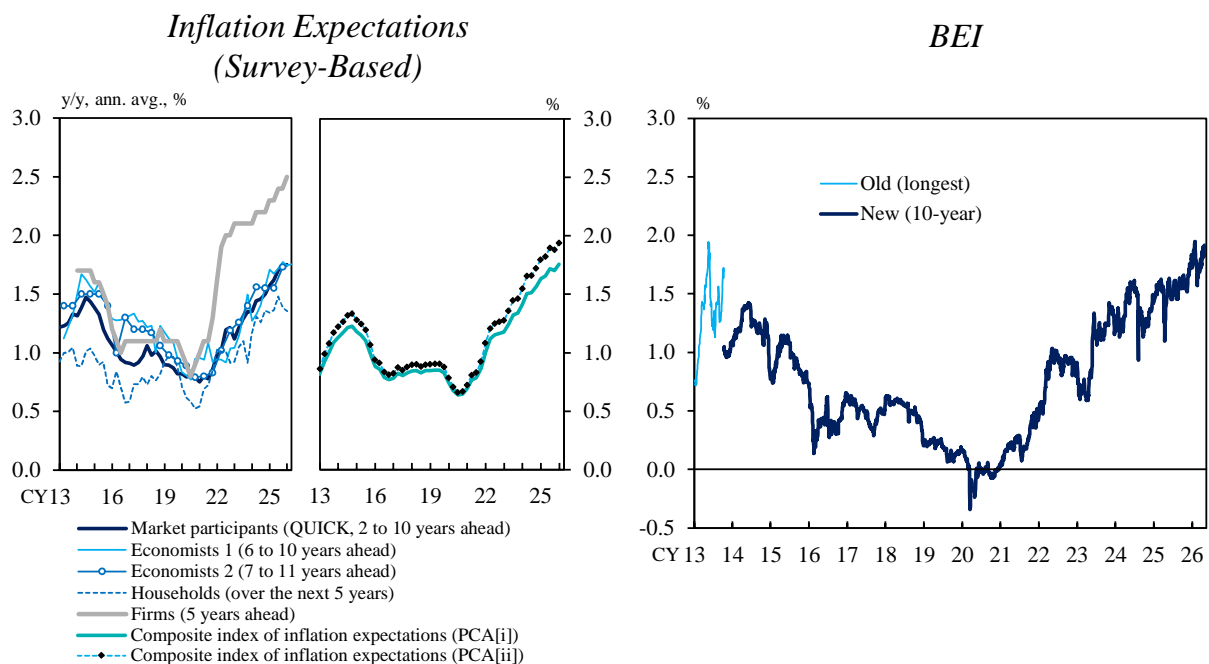
Underlying Inflation (1)



- Notes: 1. In the left panel, institutional factors include the effects of the consumption tax rate change, policies concerning the provision of free education, measures to reduce the energy cost burden (such as gasoline prices, electricity charges, and gas charges), the reduction in mobile phone charges in 2021, and travel subsidy programs. Figures are Bank staff estimates.
2. In the right panel, figures are based on Bank staff calculations using the CPI. The CPI figures are Bank staff estimates and exclude the effects of the consumption tax rate change, policies concerning the provision of free education, and travel subsidy programs.

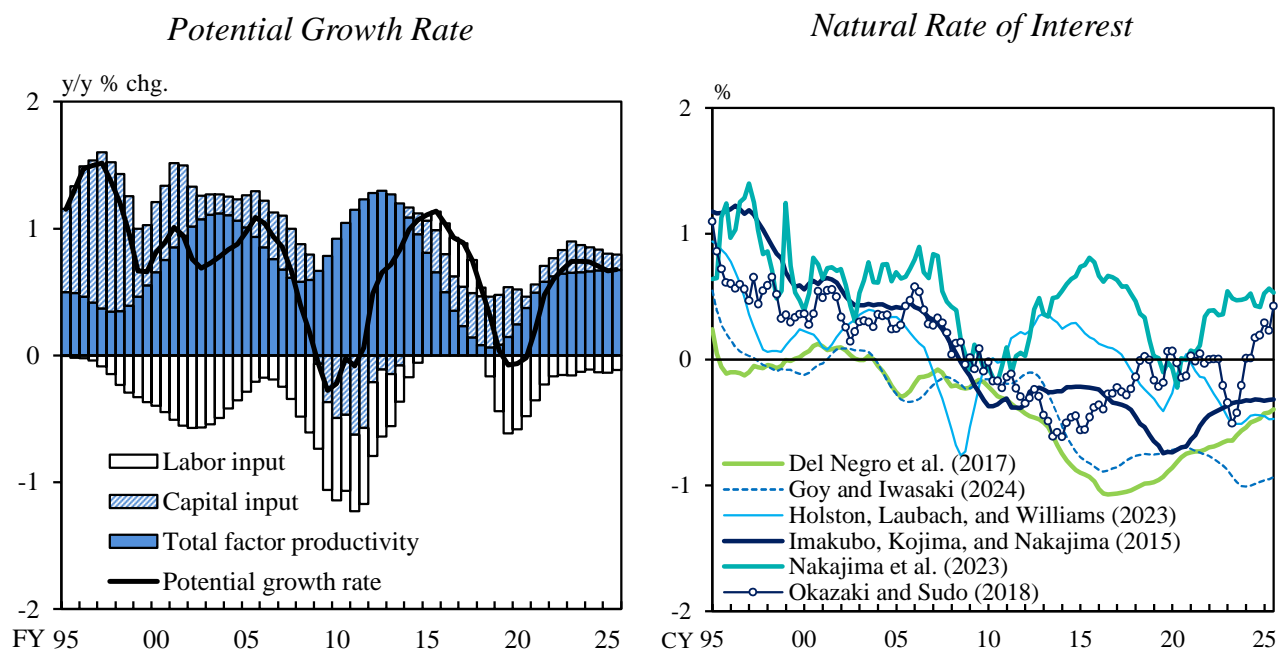
Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

Underlying Inflation (2)



- Notes: 1. For details on the left two panels, see Bank of Japan, Monetary Affairs Department, "The Concept and Measurement of Underlying Inflation," *Bank of Japan Review Series*, no. 26-E-5 (March 2026).
2. In the right panel, the BEI (break-even inflation) rate is the yield spread between fixed-rate coupon-bearing JGBs and inflation-indexed JGBs. Inflation-indexed JGBs issued since October 2013 are designated as "new," while the rest are designated as "old." Figures for "old (longest)" are calculated using yield data for issue No. 16 of inflation-indexed JGBs, which matured in June 2018.
- Sources: Bloomberg; Consensus Economics Inc., *Consensus Forecasts*; JCER, *ESP Forecast*; QUICK, *QUICK Monthly Market Survey <Bonds>*; Bank of Japan.

Potential Growth Rate and Natural Rate of Interest



Notes: 1. In the left panel, figures are Bank staff estimates. Figures for the second half of fiscal 2025 are those for 2025/Q4.

2. In the right panel, estimates are based on Bank staff calculations using the models proposed in the different papers listed.

Sources: Bloomberg; Cabinet Office; Consensus Economics Inc., *Consensus Forecasts*; Ministry of Finance; Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications; Bank of Japan.