Economic Activity, Prices, and Monetary Policy in Japan

Speech at a Meeting with Local Leaders in Kumamoto

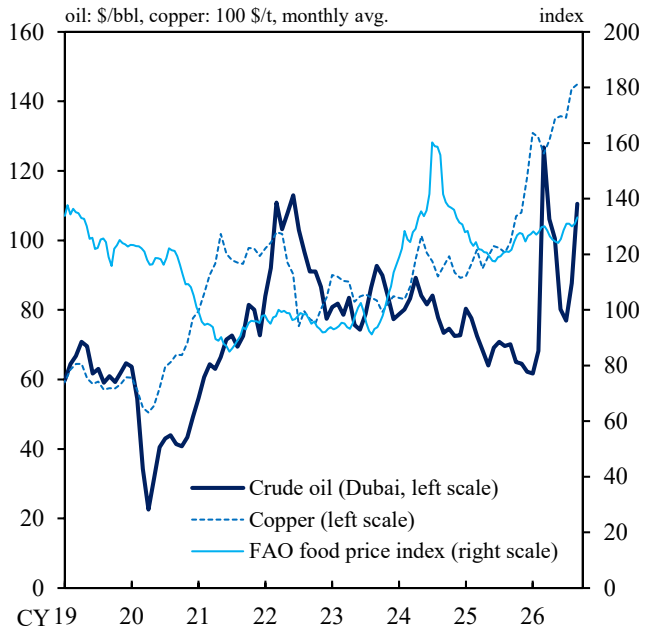
October 15, 2026

KOEDA Junko
Member of the Policy Board
Bank of Japan

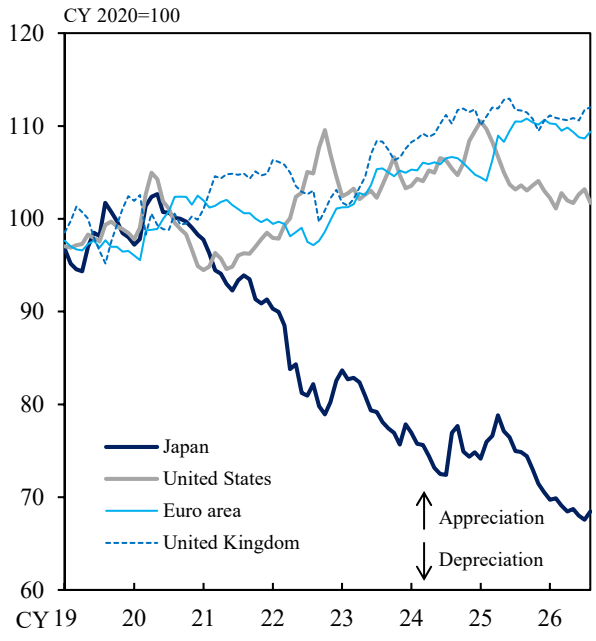
Chart 1

Commodity Prices and Effective Exchange Rates

International Commodity Prices



Nominal Effective Exchange Rates

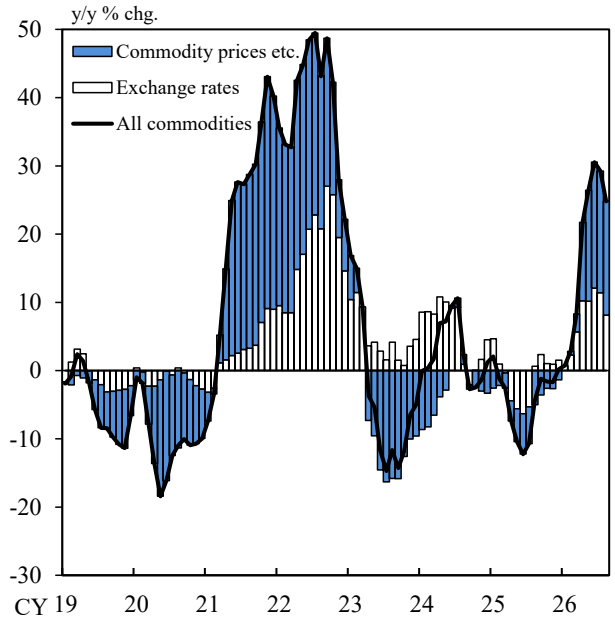


Notes: 1. In the left panel, the FAO food price index is a price index comprising meat, dairy, cereals, vegetable oils, and sugar (CY 2014-2016 average=100).
2. In the right panel, figures are based on the broad effective exchange rate indices.
Sources: BIS; Bloomberg; FAO; Nikkei Inc.

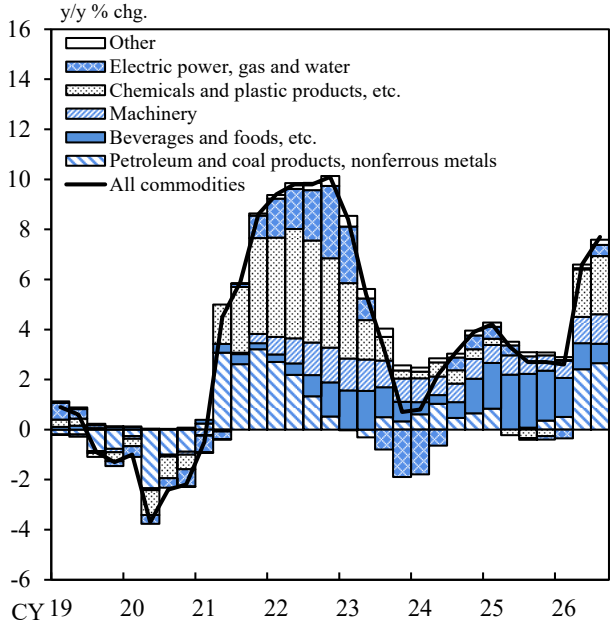
Chart 2

Import Prices and Producer Price Index

Import Prices



PPI



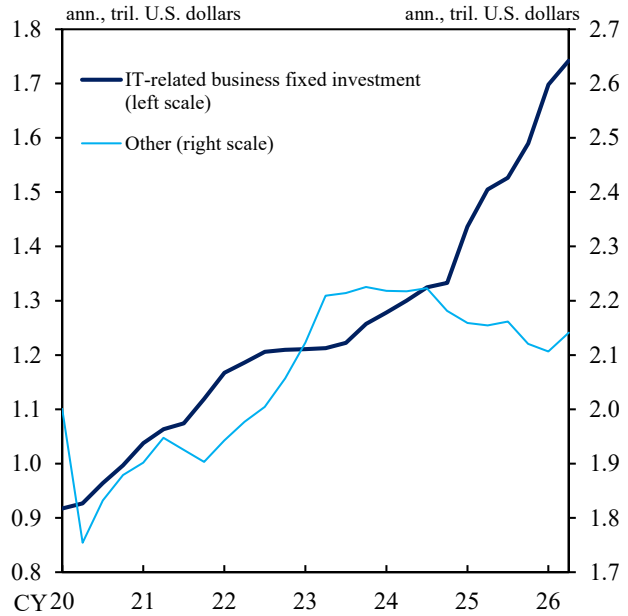
Notes: 1. In the left panel, the contribution of changes in commodity prices etc. is calculated using changes in the import price index on a contract currency basis. The contribution of changes in exchange rates is calculated using the difference between the import price index on a yen basis and that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

Source: Bank of Japan.

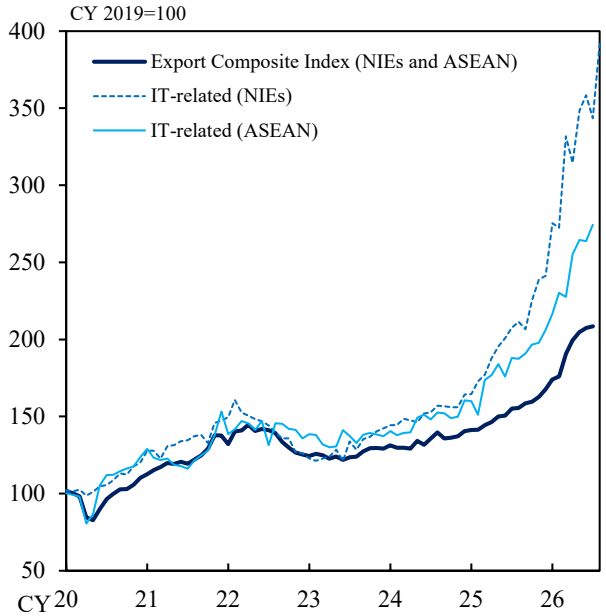
Chart 3

AI-Related Demand

U.S. Business Fixed Investment



Exports from NIEs and ASEAN



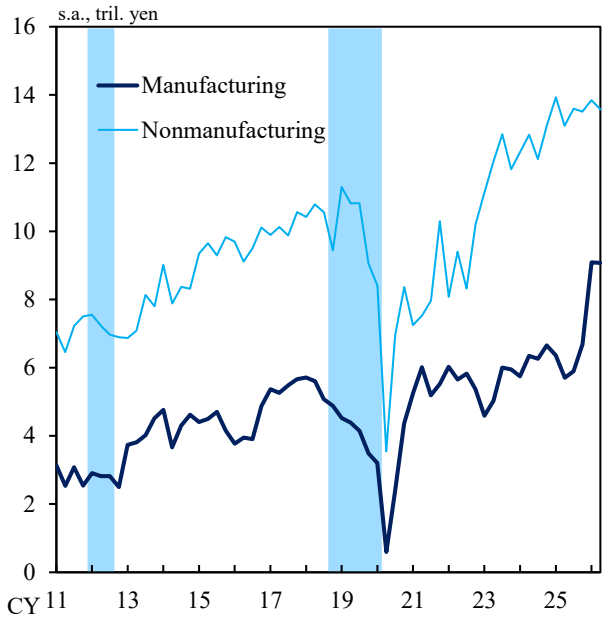
Notes: 1. In the left panel, figures for IT-related business fixed investments are the sum of software investment, information processing equipment (within machinery investment), and data centers (within construction investment).
2. In the right panel, figures are based on nominal U.S. dollars. Unpublished data points, if any, are filled in with estimates. Figures for Export Composite Index (NIEs and ASEAN) are indices based on the sum of gross exports from the nine economies in the region.

Sources: CEIC; Haver.

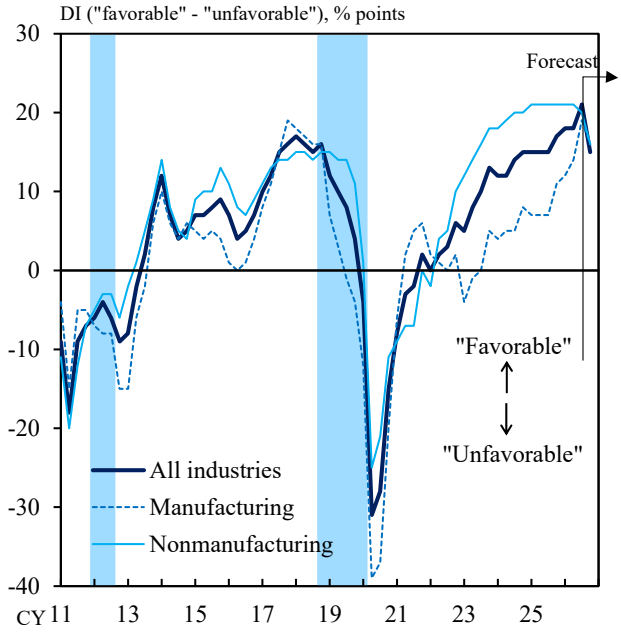
Chart 4

Corporate Sector

Operating Profits



Business Conditions



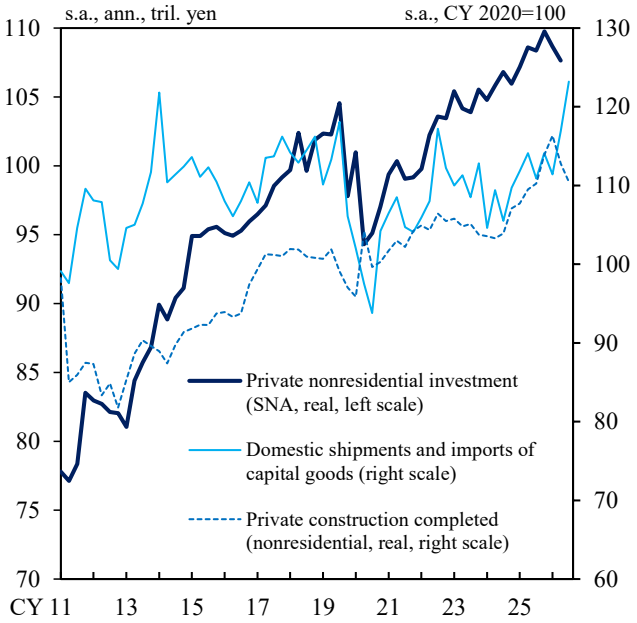
Notes: 1. In the left panel, figures are based on the *Financial Statements Statistics of Corporations by Industry, Quarterly* and exclude "finance and insurance" and "pure holding companies."
2. In the right panel, figures are based on the *Tankan* and are for all enterprises.
3. In both panels, shaded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

Sources: Ministry of Finance; Bank of Japan.

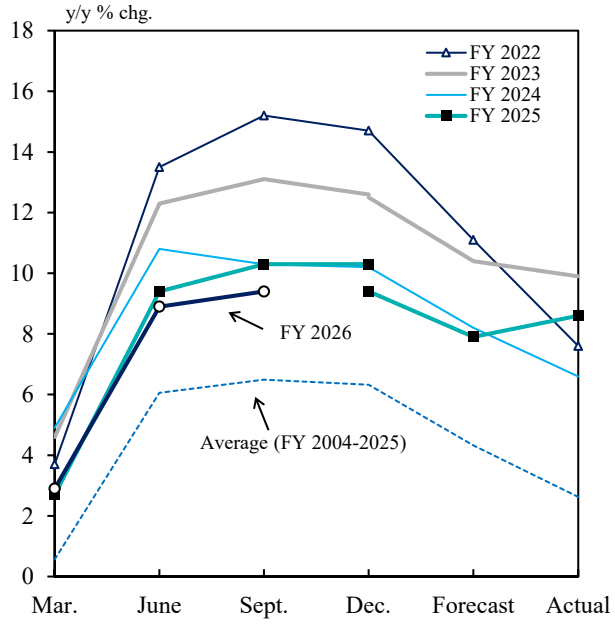
Chart 5

Business Fixed Investment

Coincident Indicators



Developments in Business Fixed Investment Plans



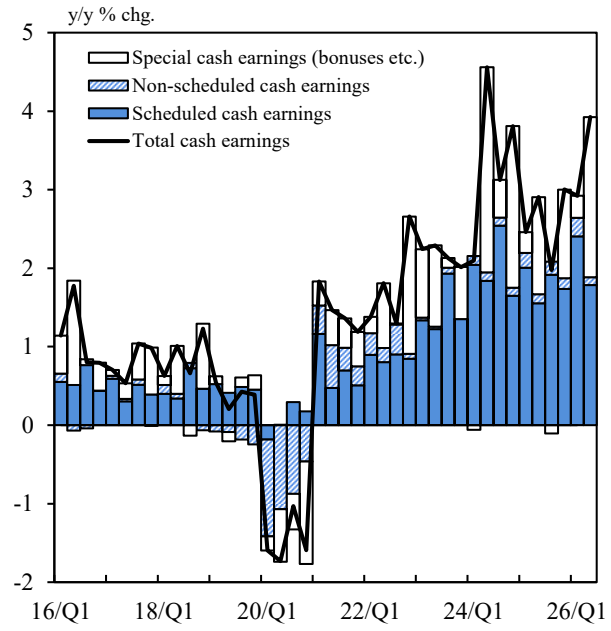
Notes: 1. In the left panel, figures for real private construction completed are based on Bank staff calculations using the construction cost deflators.
2. In the right panel, figures are based on the *Tankan* and are for all industries including financial institutions. Figures include software and R&D 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.

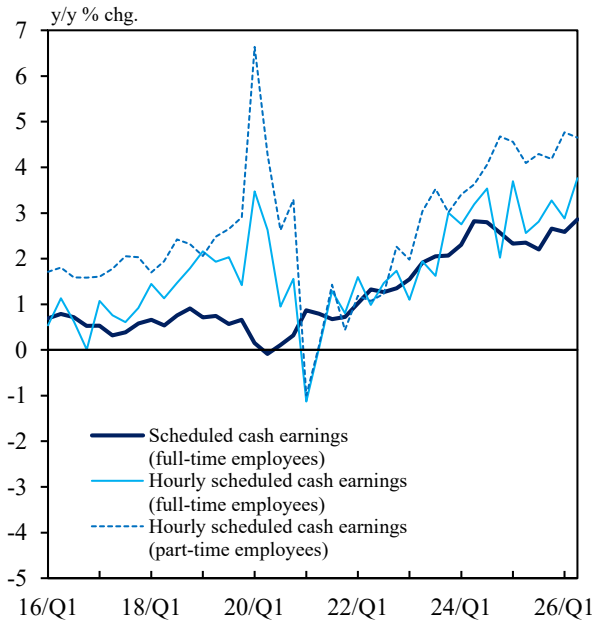
Chart 6

Wages

Nominal Wages



Scheduled Cash Earnings

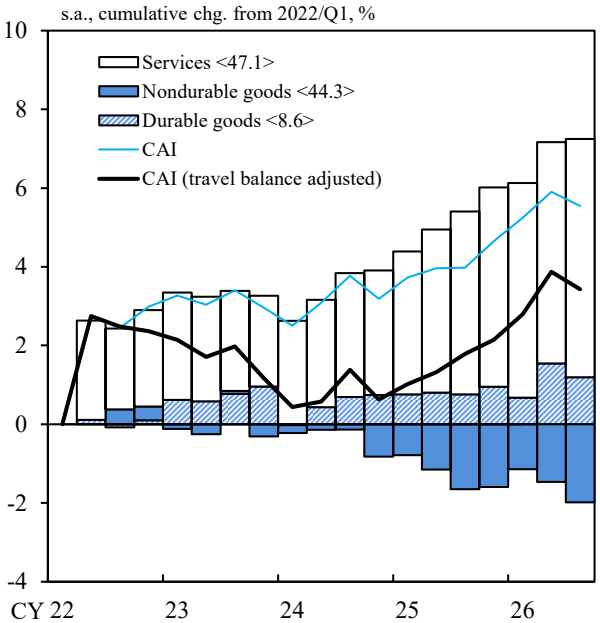


Notes: 1. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
2. Figures are based on continuing observations following the sample revisions.
3. In the right panel, figures for hourly scheduled cash earnings (full-time employees) are seasonally adjusted.
Source: Ministry of Health, Labour and Welfare.

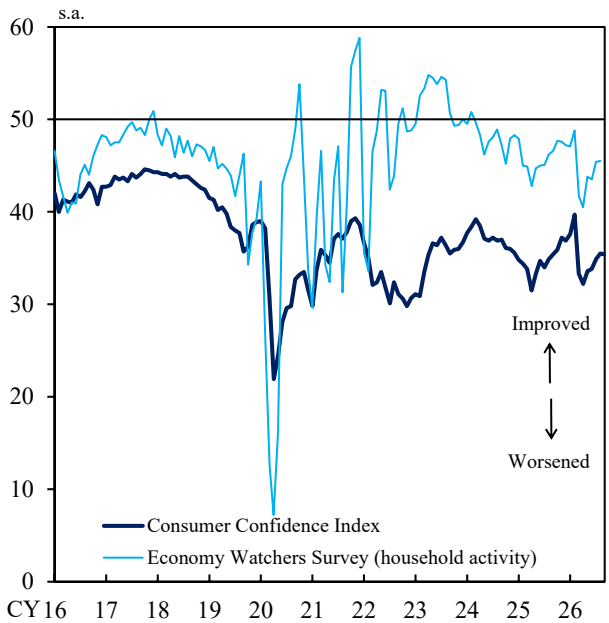
Chart 7

Household Spending

Consumption Activity Index (CAI, Real)



Confidence Indicators

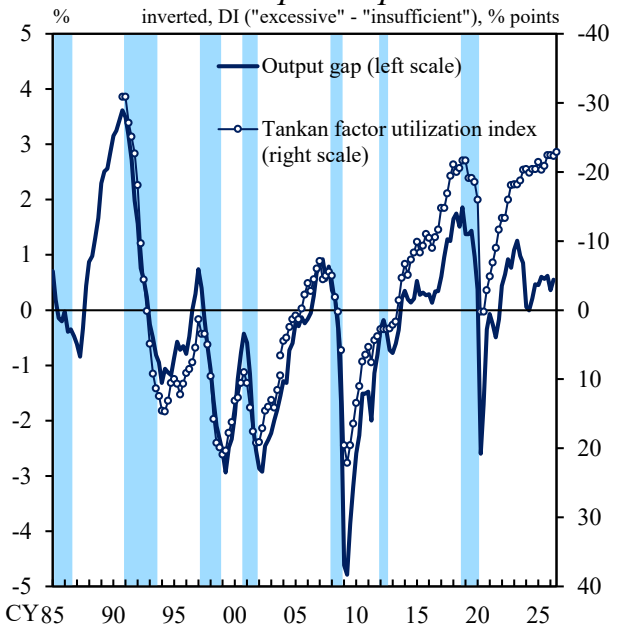


Notes: 1. In the left panel, figures are based on Bank staff calculations. Figures for the CAI (travel balance adjusted) exclude inbound tourism consumption and include outbound tourism consumption. Nondurable goods include goods classified as semi-durable goods in the SNA. Figures in angular brackets show the weights in the CAI.
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.

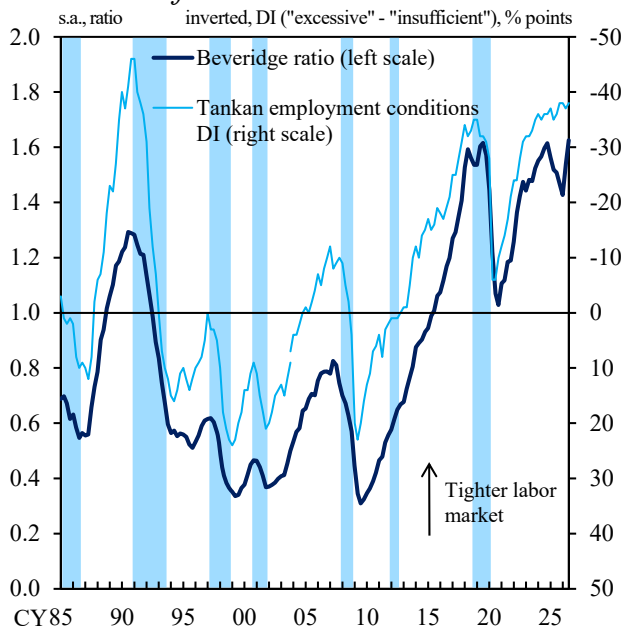
Chart 8

Indicators of Supply and Demand Conditions

Output Gap



Measures of Labor Market Conditions



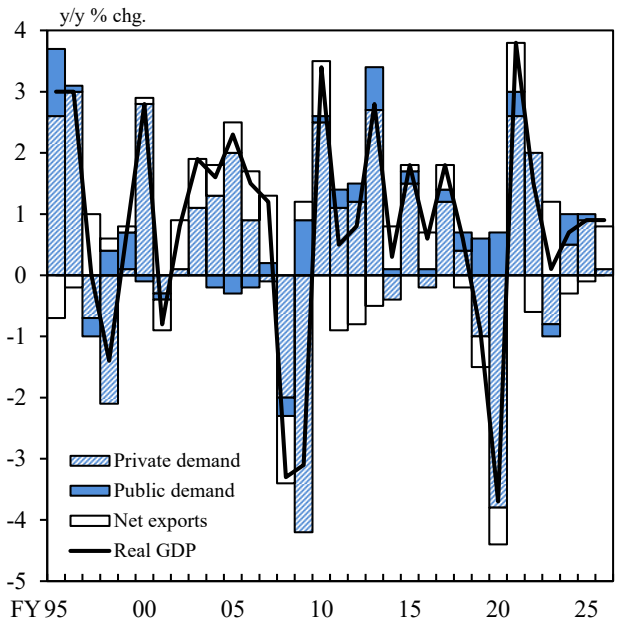
Notes: 1. In the left panel, figures for the output gap are Bank staff estimates. The *Tankan* factor utilization index is calculated as the weighted average of the production capacity DI and the employment conditions DI. The capital and labor shares are used as weights.
2. In the right panel, Beveridge 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.
3. In both panels, shaded areas denote recession periods. Figures for the *Tankan* factor utilization index and *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.

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

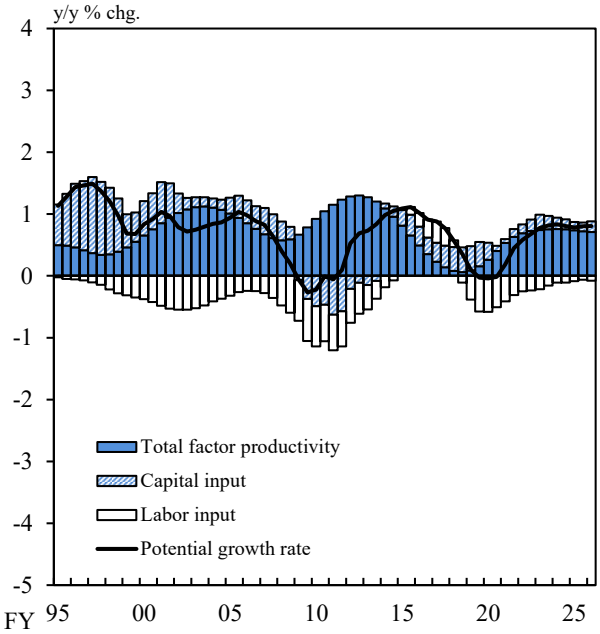
Chart 9

Real GDP and Potential Growth Rate

Real GDP



Potential Growth Rate

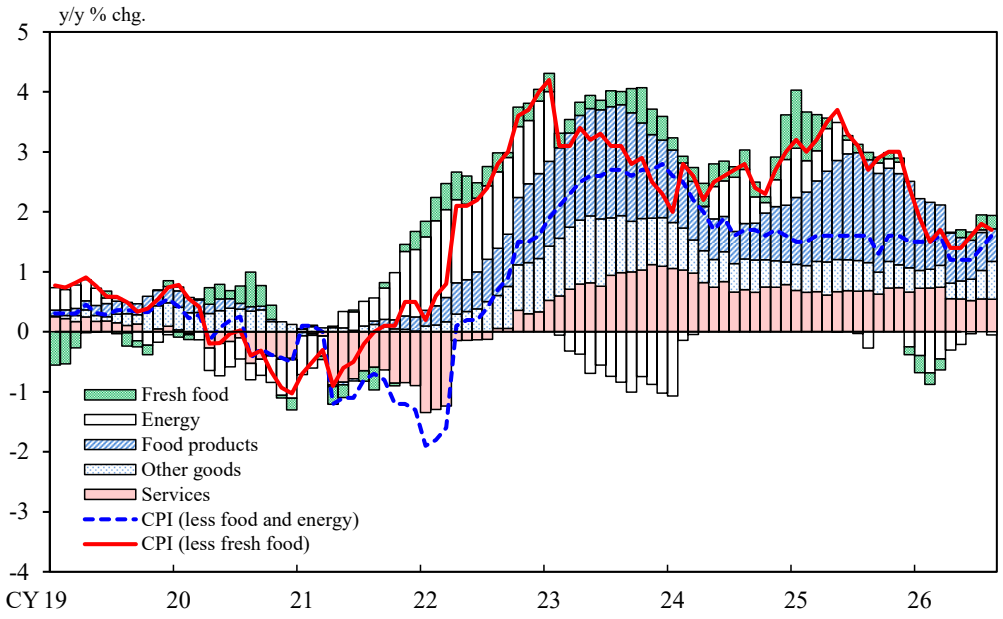


Notes: 1. In the left panel, figures for fiscal 2026 are April-June averages.
2. In the right panel, figures are Bank staff estimates.

Sources: Cabinet Office; Bank of Japan.

Environment Surrounding Prices (1)

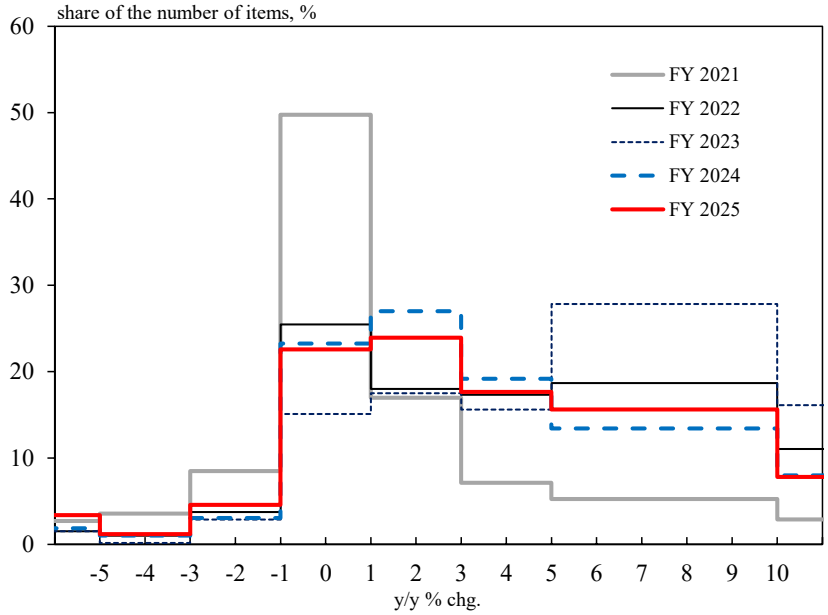
Consumer Price Index (CPI)



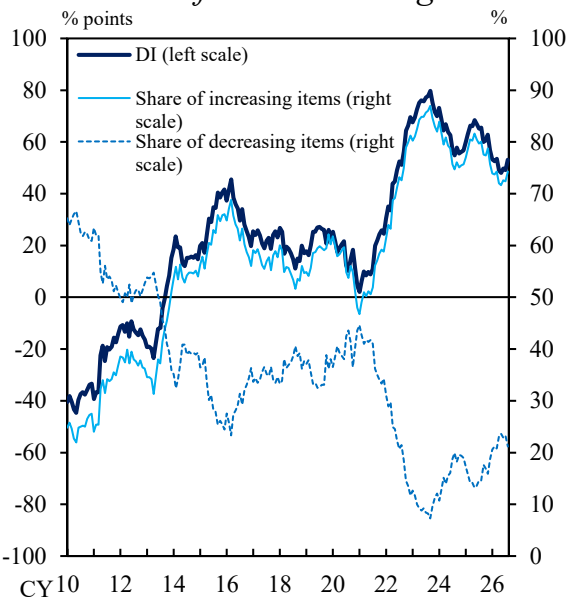
Source: Ministry of Internal Affairs and Communications.

Environment Surrounding Prices (2)

Histogram (CPI items)



DI for Price Changes



Notes: 1. In the left panel, figures are based on CPI all items. The left-most bin includes items with a price decrease of more than 5 percent, while the right-most bin includes items with a price increase of 10 percent or more.

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 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 (including the free school lunches starting in April 2026), and travel subsidy programs.

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

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

Risks regarding AI-related demand

- Strong business fixed investment could push up the global economy, while, if profits do not align, adjustment pressure could arise, accompanied by, for example, changes in asset prices.
- On the price front, the rise in semiconductor prices could lead to an increase in consumer prices across a variety of items.

Risk regarding the situation in the Middle East

- Crude oil prices have declined compared with a while ago, decreasing the significant downside risks to economic activity and the significant upside risks to prices.

Risk regarding developments in foreign exchange rates

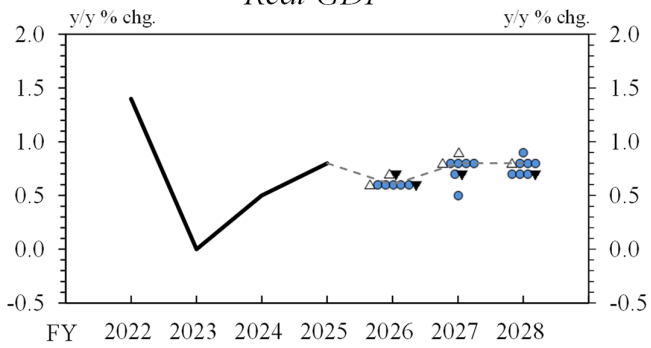
- The year-on-year rate of increase in import prices has recently risen substantially due to the depreciation of the yen as well as developments in commodity prices, such as high crude oil prices. This is expected to push up the prices of a wide range of items.

Risk balance

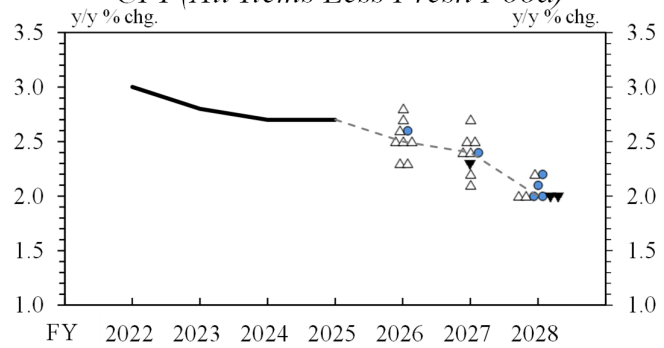
- Risks to economic activity are generally balanced, and risks to prices are skewed to the upside.

Policy Board Members' Forecasts and Risk Assessments

Real GDP



CPI (All Items Less Fresh Food)

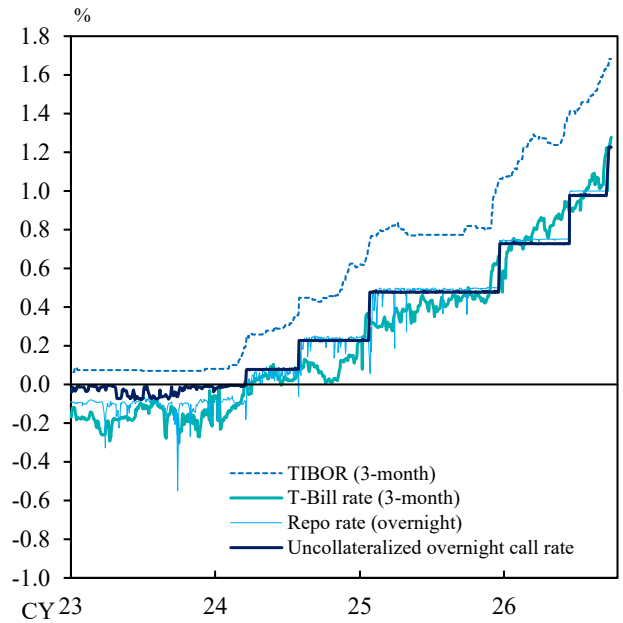


Notes: 1. The solid lines show actual figures, while the dotted lines show the medians of the Policy Board members' forecasts (point estimates).
2. The locations of ●, △, and ▼ in the charts indicate the figures for each Policy Board member's forecasts to which they attach the highest probability. The 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."

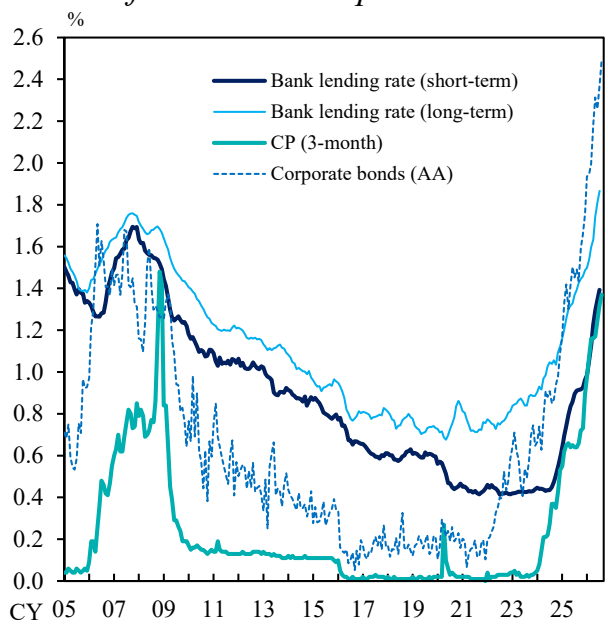
Source: Bank of Japan.

Financial Conditions (1)

Short-term Interest Rates



Bank Lending Rates and Issuance Yields for CP and Corporate Bonds

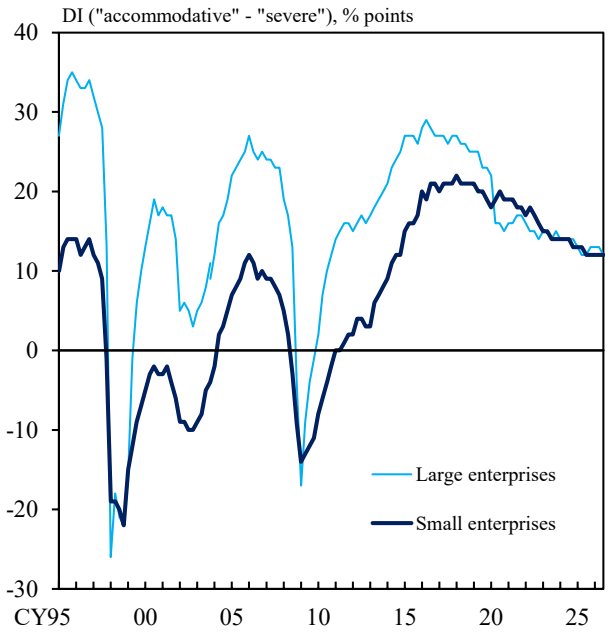


Notes: 1. In the left panel, figures for repo rate are the *Tokyo Repo Rate*.
2. In the right panel, figures for issuance yields for CP up through September 2009 are the averages for CP (3-month, rated a-1 or higher). Those from October 2009 onward are the averages for CP (3-month, rated a-1). Figures 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.

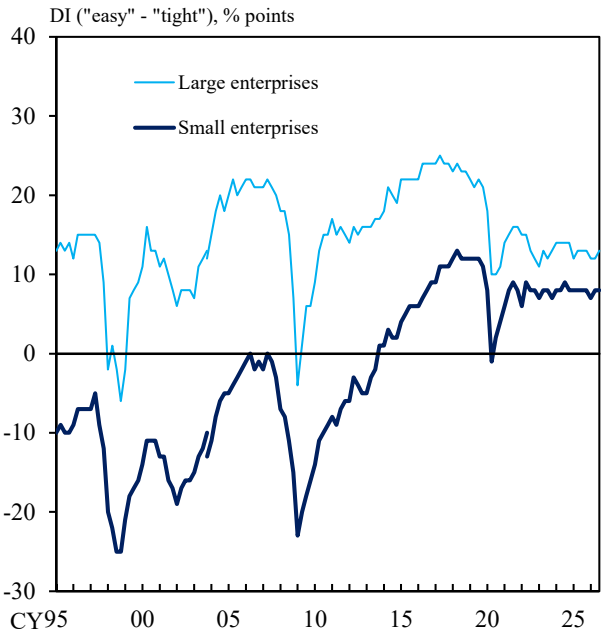
Sources: Bloomberg; Capital Eye; I-N Information Systems; Japan Securities Depository Center; JBA TIBOR Administration; Bank of Japan.

Financial Conditions (2)

Lending Attitudes of Financial Institutions as Perceived by Firms



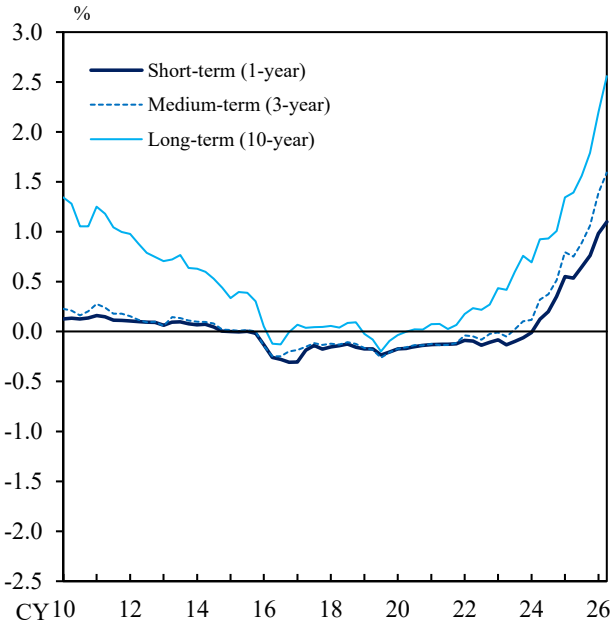
Firms' Financial Positions



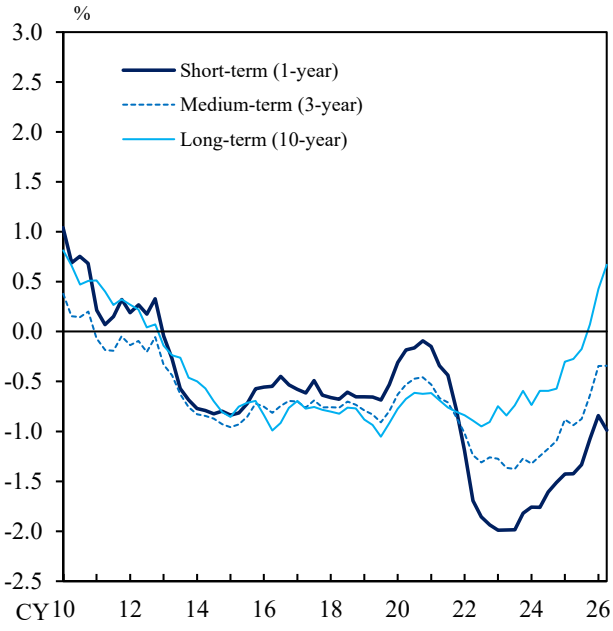
Note: Figures are based on the *Tankan* and are for all industries. There is a discontinuity in the data for December 2003 due to a change in the survey framework.
Source: Bank of Japan.

Nominal and Real Interest Rates

Nominal Interest Rates



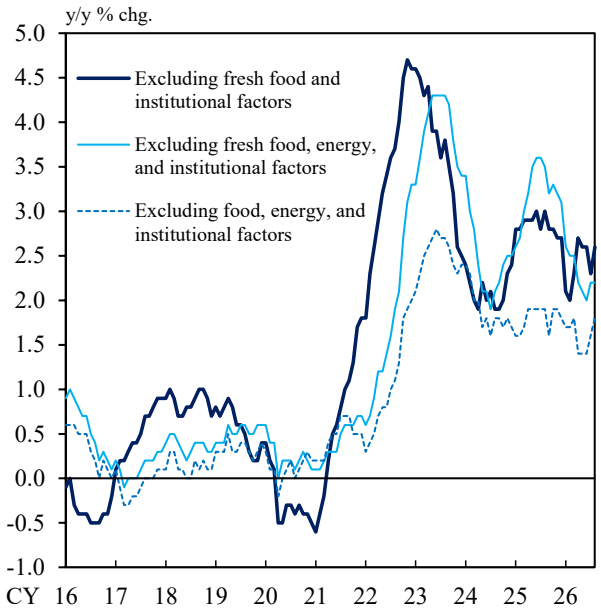
Real Interest Rates



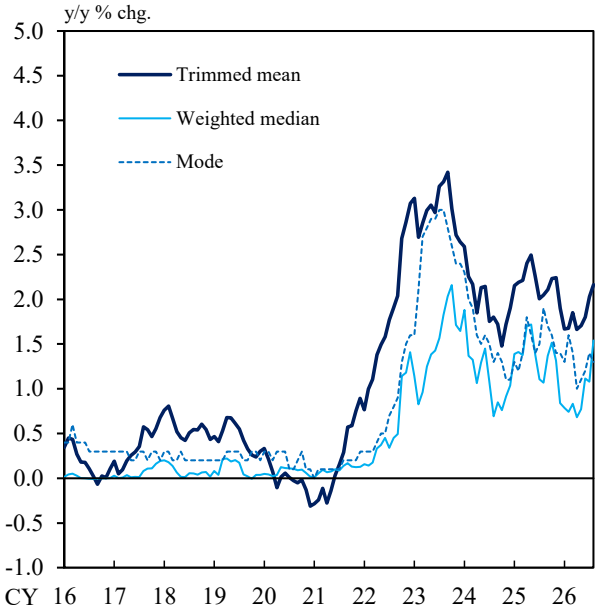
Notes: 1. In the right panel, figures for real interest rates for each maturity are calculated as government bond yields minus the composite index of inflation expectations (Bank staff estimates) for the corresponding maturity.
2. In both panels, figures are on a quarterly average basis.
Sources: Bloomberg; Consensus Economics Inc., *Consensus Forecasts*; QUICK, *QUICK Monthly Market Survey <Bonds>*; Bank of Japan.

Underlying Inflation (1)

CPI Excluding Institutional Factors



Trimmed Mean etc.



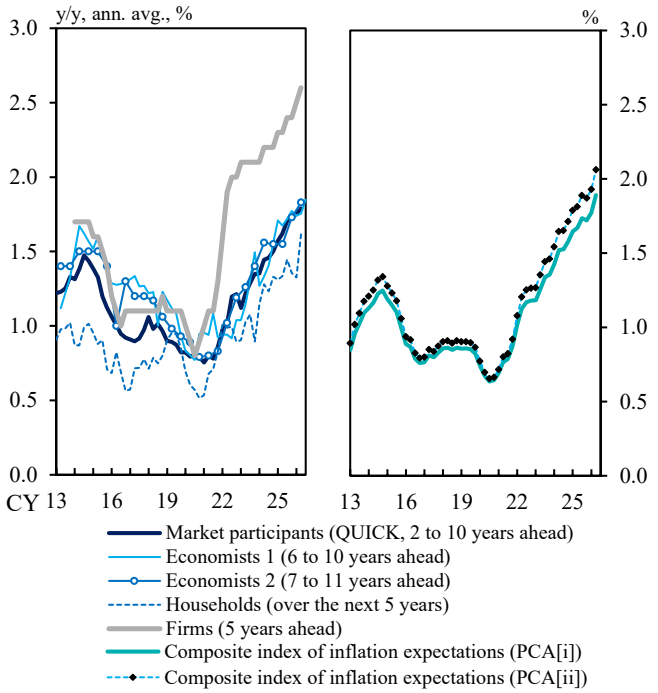
Notes: 1. In the left panel, institutional factors include the effects of the consumption tax rate change, policies concerning the provision of free education (including the free school lunches starting in April 2026), measures to reduce the energy cost burden (such as gasoline prices, electricity charges, 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 (including the free school lunches starting in April 2026), and travel subsidy programs.

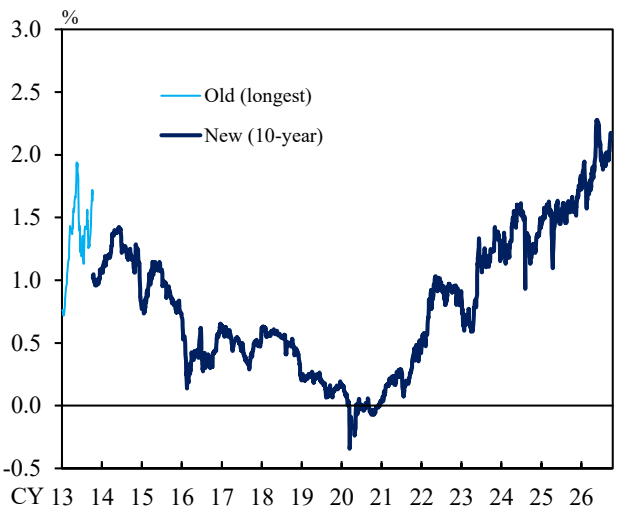
Sources: Bank of Japan etc.

Underlying Inflation (2)

Inflation Expectations (Survey-Based)



BEI

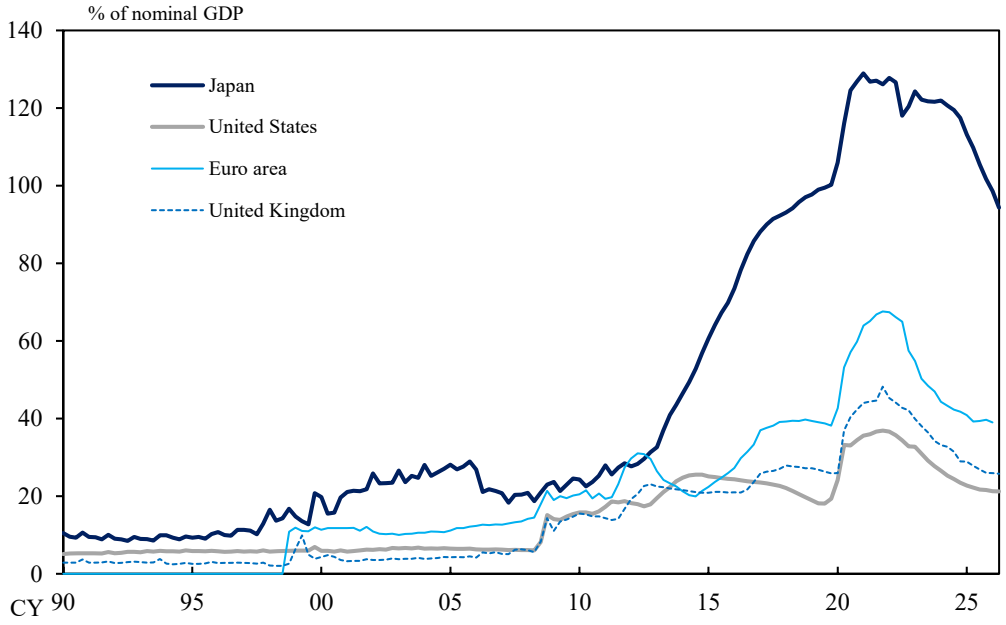


Notes: 1. For details on the left two panels, see Bank of Japan, Monetary Affairs Department, "The Concept and Measurement of Underlying Inflation," *Bank of Japan Review Series*, no. 26-E-5 (March 2026).

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.

Central Banks' Balance Sheets



Source: BIS.

Plan for the Outright Purchases of JGBs (June 2026 MPM)

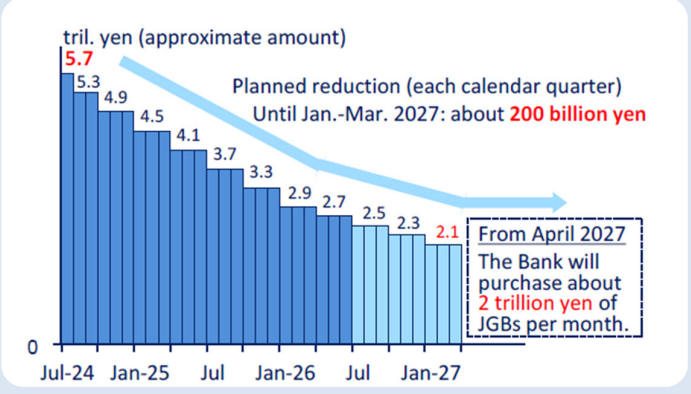
1. In principle, long-term interest rates are to be formed in financial markets.
2. It is appropriate for the Bank to conduct the purchases of JGBs in a predictable manner, while allowing enough flexibility to support stability in the JGB markets.

➢ Based on this thinking, with a view to improvement of market functioning and stability of the JGB markets, the Bank will conduct the outright purchases of JGBs as follows.

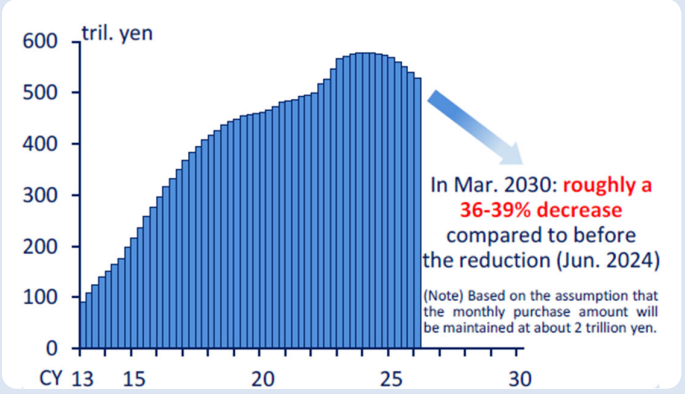
- Until January-March 2027 : The Bank will reduce the planned amount of its monthly purchases of JGBs by, in principle, about 200 billion yen each calendar quarter (the reduction plan decided in June 2025 will be maintained).
- From April 2027 : The amount of its monthly purchases of JGBs will be about 2 trillion yen.

Purchases of JGBs in a Predictable Manner

Amount of monthly JGB purchases



The Bank's JGB holdings



Allowing Enough Flexibility

1. 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.
2. The Bank is prepared to amend the pace of its JGB purchases at the MPMs, if deemed necessary, taking into account the basic thinking on the purchases of JGBs and other factors such as developments in the JGB markets.

Source: Bank of Japan.