

# Japan's Economy and Monetary Policy

*Speech at a Meeting with Business Leaders in Nagoya*

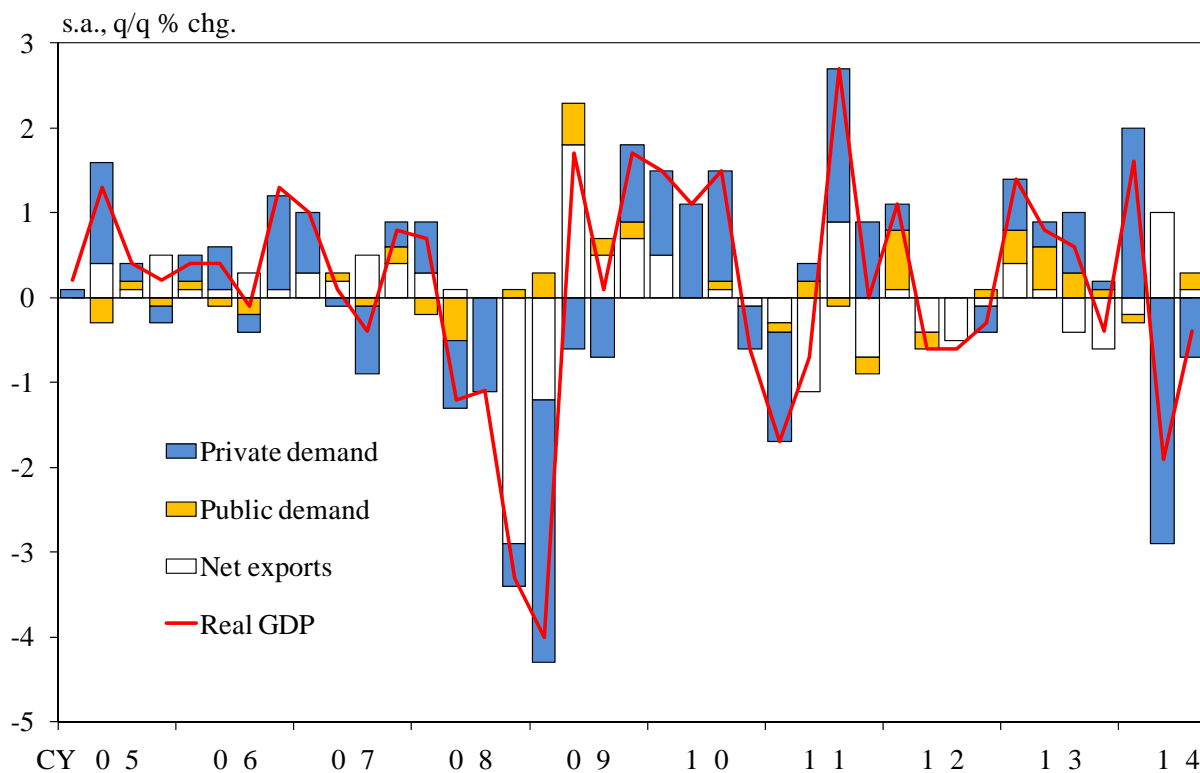
November 25, 2014

Haruhiko Kuroda

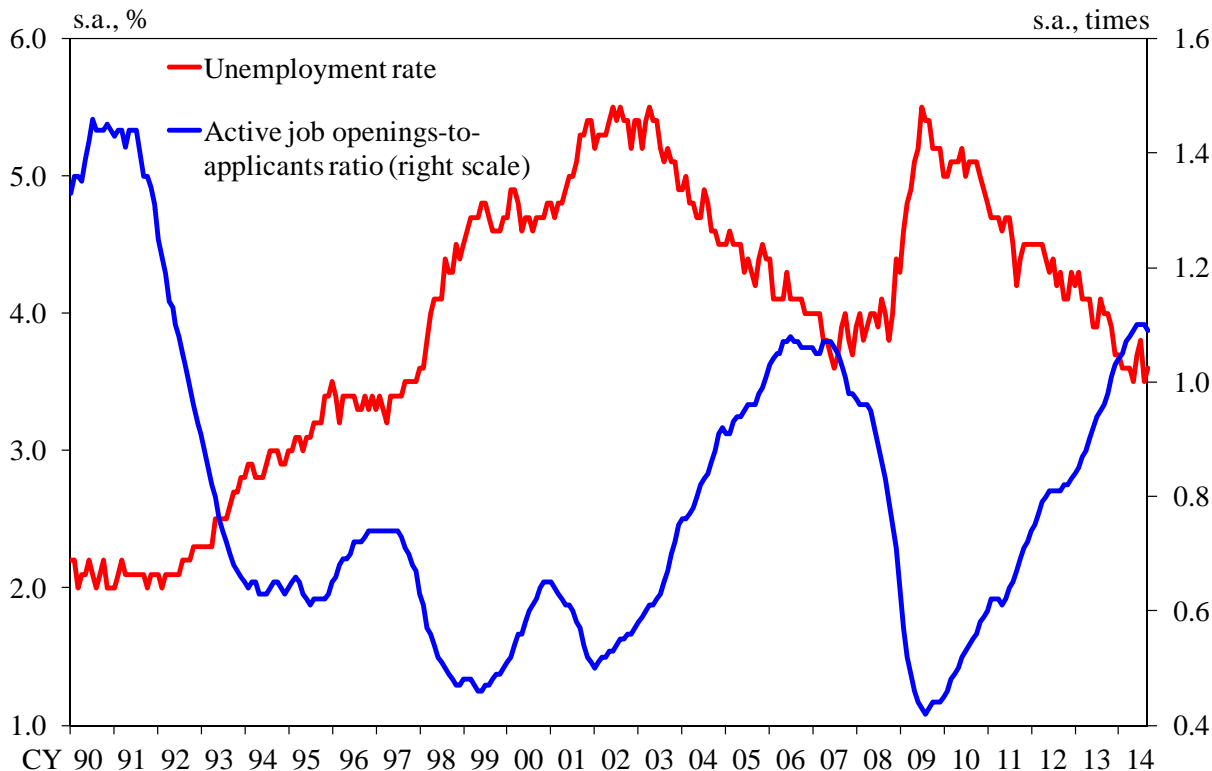
*Governor of the Bank of Japan*

Chart 1

## Real GDP

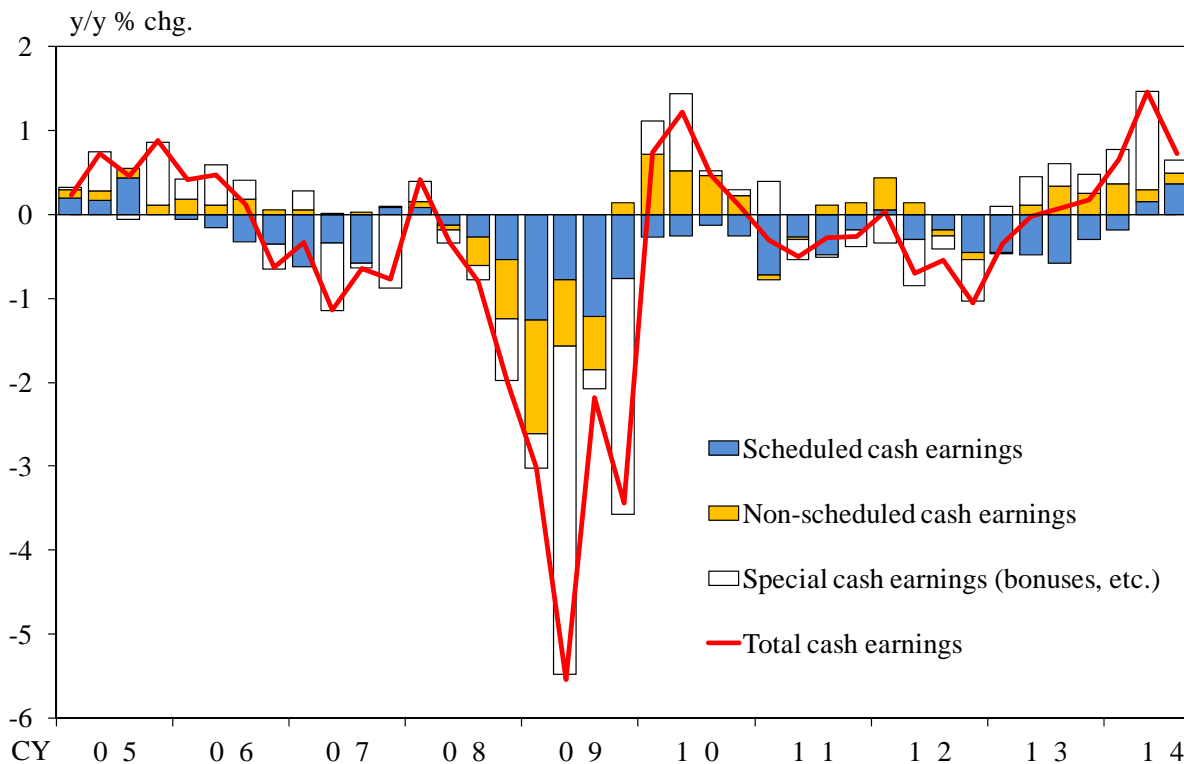


## Labor Market Conditions



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

## Cash Earnings



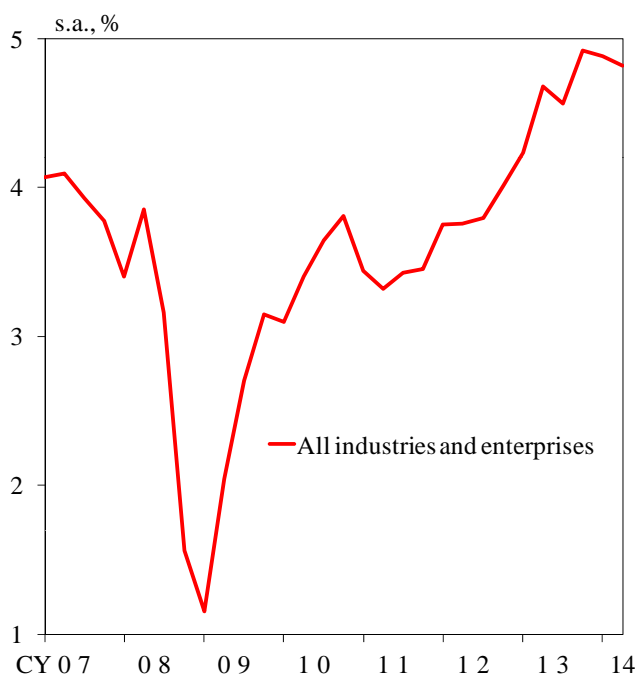
Note: Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.

Figures for 2014/Q3 are those of September.

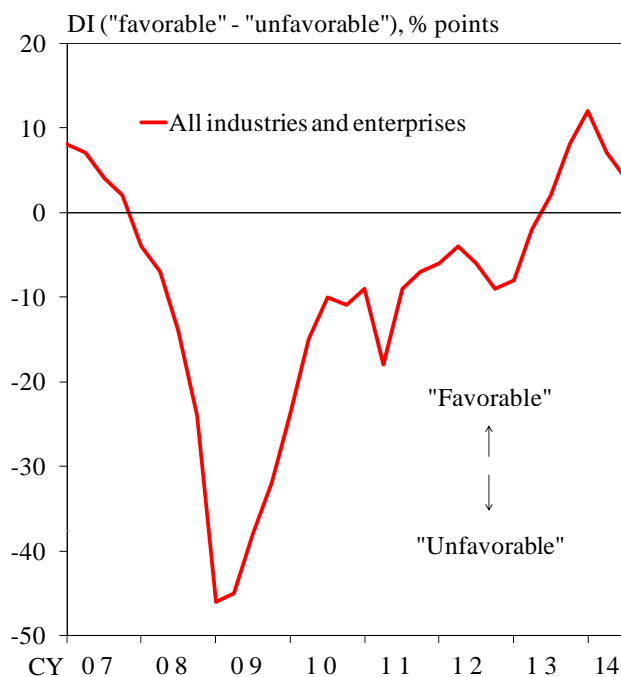
Source: Ministry of Health, Labour and Welfare.

# Corporate Profits and Business Sentiment

## Ratio of Current Profits to Sales



## Tankan: Business Conditions DI



Sources: Ministry of Finance; Bank of Japan.

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# Tankan: Business Plans

## Sales

	FY2013	FY2014		y/y % chg.
		(Forecast)	Revision rate	
Manufacturing	6.2	1.3	0.0	
Nonmanufacturing	5.2	0.9	0.2	
All industries	5.5	1.0	0.2	

## Fixed Investment

	FY2013	FY2014		y/y % chg.
		(Forecast)	Revision rate	
Manufacturing	1.1	12.9	1.1	
Nonmanufacturing	7.7	2.6	1.4	
All industries	5.3	6.1	1.3	

## Current Profits

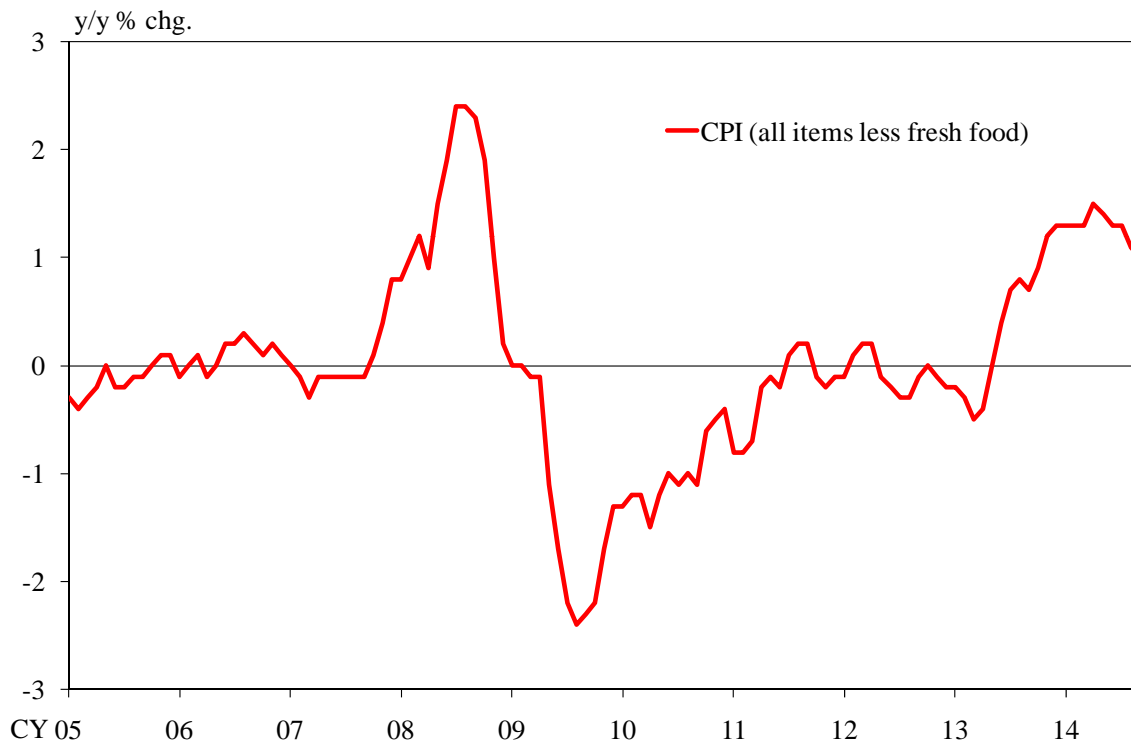
	FY2013	FY2014		y/y % chg.
		(Forecast)	Revision rate	
Manufacturing	40.9	-2.6	0.9	
Nonmanufacturing	20.8	-5.1	1.8	
All industries	28.4	-4.0	1.4	

Notes: 1. September 2014 Survey. All enterprises. Revision rates are calculated as the percentage change of the figures between the current and the previous survey (June 2014).  
2. Figures for fixed investment include software investment but exclude land purchasing expenses.

Source: Bank of Japan.

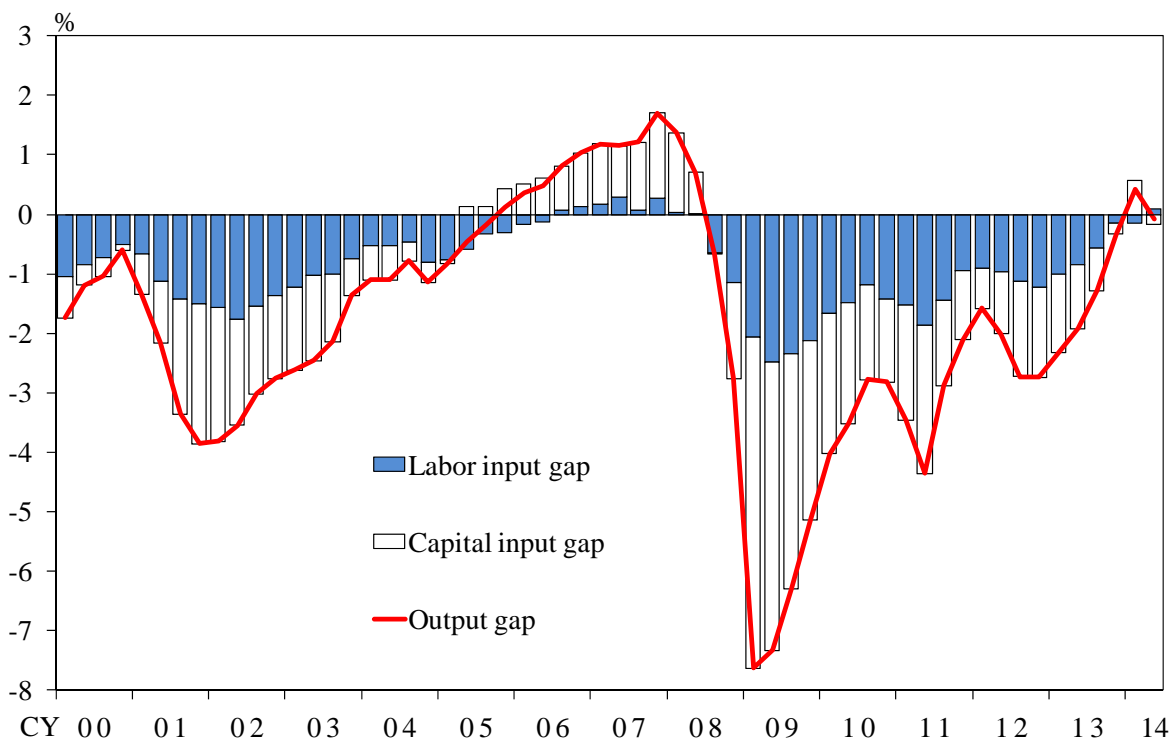
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# Consumer Prices



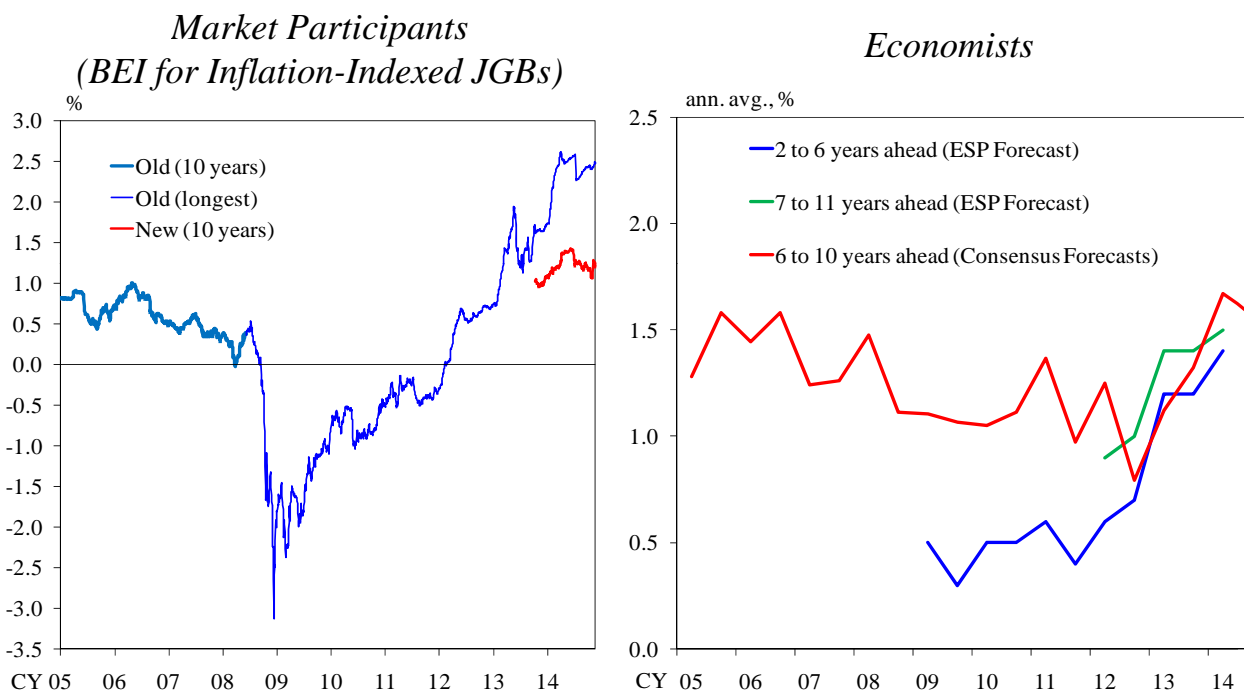
Note: Figures from April 2014 onward are calculated to adjust the direct effects of the consumption tax hike.  
 Source: Ministry of Internal Affairs and Communications.

# Output Gap



Note: The output gap is estimated by the Research and Statistics Department, Bank of Japan. For the estimation procedures, see "The New Estimates of Output Gap and Potential Growth Rate," Bank of Japan Review Series, 2006-E-3.  
 Sources: Cabinet Office; Bank of Japan, etc.

# Inflation Expectations



Notes: 1. BEI (break-even inflation) rates are yield spreads 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 the inflation-indexed JGBs, which matures in June 2018.

2. Figures for the Consensus Forecasts are compiled every January, April, July, and October. Those up through April 2014 are compiled every April and October.

3. Figures for the ESP Forecast are compiled every June and December, and exclude the effects of the consumption tax hikes.

Sources: Bloomberg; Consensus Economics Inc.; JCER.

## Expansion of the Quantitative and Qualitative Monetary Easing

Accelerating the annual pace of increase in the monetary base from about 60-70 trillion yen to **" 80 trillion yen "**

Increasing the Bank's JGB holdings at an annual pace of about **80 trillion yen:** **" + 30 trillion yen "**

Extending the average remaining maturity of JGB purchases to **about 7-10 years:** **" + 3 years "**

Accelerating the pace of purchases of ETFs and J-REITs: **" Tripled "**



- Pre-empt manifestation of a risk that conversion of deflationary mindset, which has so far been progressing steadily, might be delayed
- Maintain the improving **momentum of expectation formation**

## Outlook for Economic Activity and Prices (as of October 2014)

y/y % chg.

	Real GDP	CPI (all items less fresh food)	Excluding the effects of the consumption tax hikes
Fiscal 2014	+0.5	+3.2	+1.2
Forecasts made in July 2014	+1.0	+3.3	+1.3
Fiscal 2015	+1.5	+2.4	+1.7
Forecasts made in July 2014	+1.5	+2.6	+1.9
Fiscal 2016	+1.2	+2.8	+2.1
Forecasts made in July 2014	+1.3	+2.8	+2.1

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