

# Japan's Economy and Monetary Policy

*Speech at a Meeting with Business Leaders in Kumamoto*

July 27, 2015

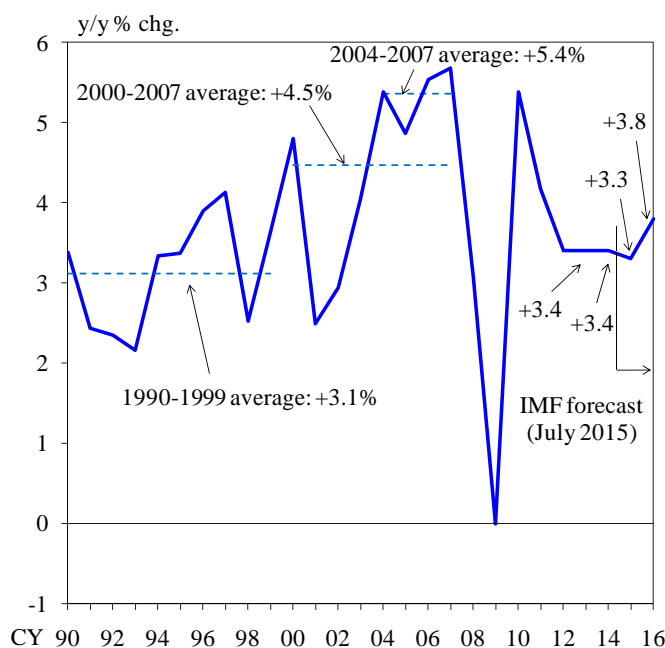
Hiroshi Nakaso

*Deputy Governor of the Bank of Japan*

Chart 1

## World Economy

*Real GDP Growth Rate*



*Projections for Major Economies*

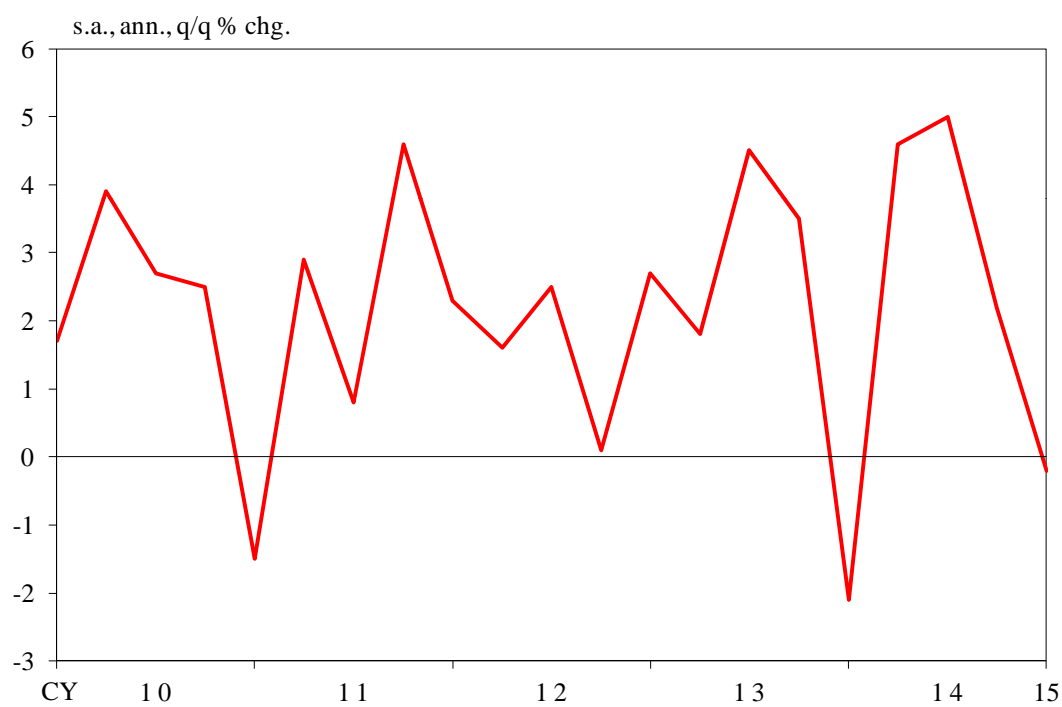
y/y % chg.

	2013	2014	Projections	
			2015	2016
World	3.4	3.4	3.3 (-0.2)	3.8 (0.0)
Advanced Economies	1.4	1.8	2.1 (-0.3)	2.4 (0.0)
United States	2.2	2.4	2.5 (-0.6)	3.0 (-0.1)
Euro Area	-0.4	0.8	1.5 (0.0)	1.7 (0.1)
Japan	1.6	-0.1	0.8 (-0.2)	1.2 (0.0)
Emerging Market and Developing Economies	5.0	4.6	4.2 (-0.1)	4.7 (0.0)
China	7.7	7.4	6.8 (0.0)	6.3 (0.0)

Note: Figures in parentheses are the difference from the April 2015 WEO projections.

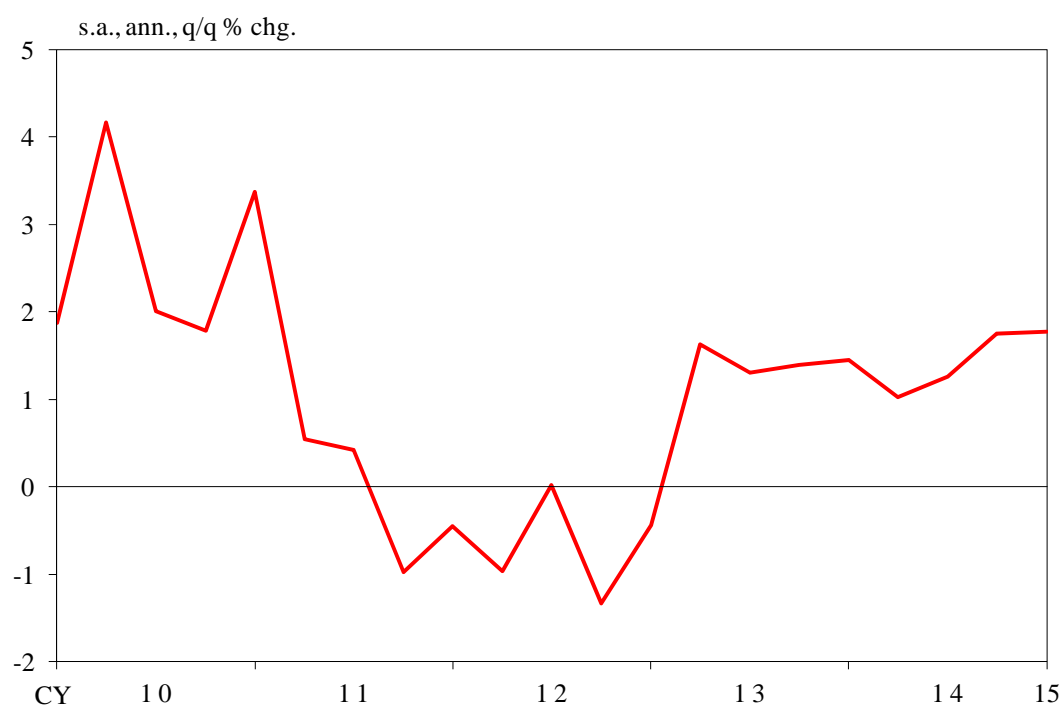
Source: IMF.

## United States: Real GDP Growth Rate



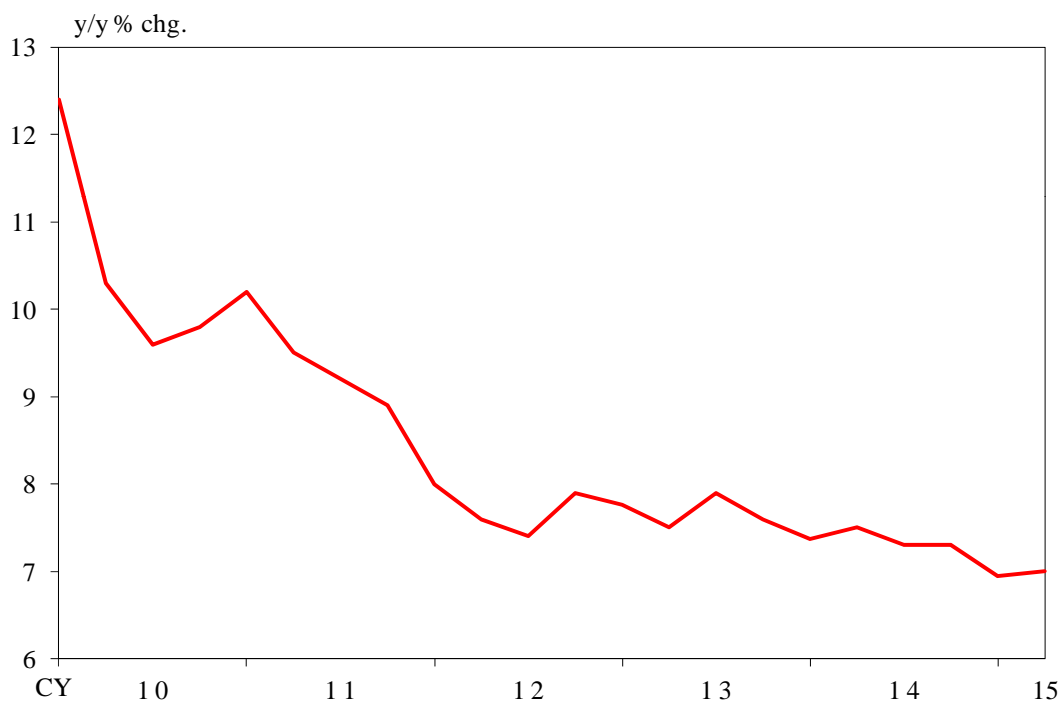
Source: BEA.

## EU: Real GDP Growth Rate



Source: Eurostat.

## China: Real GDP Growth Rate

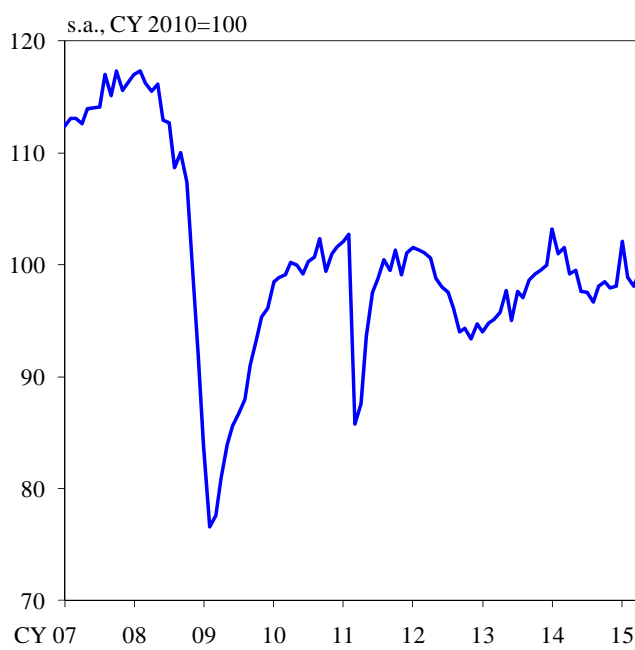
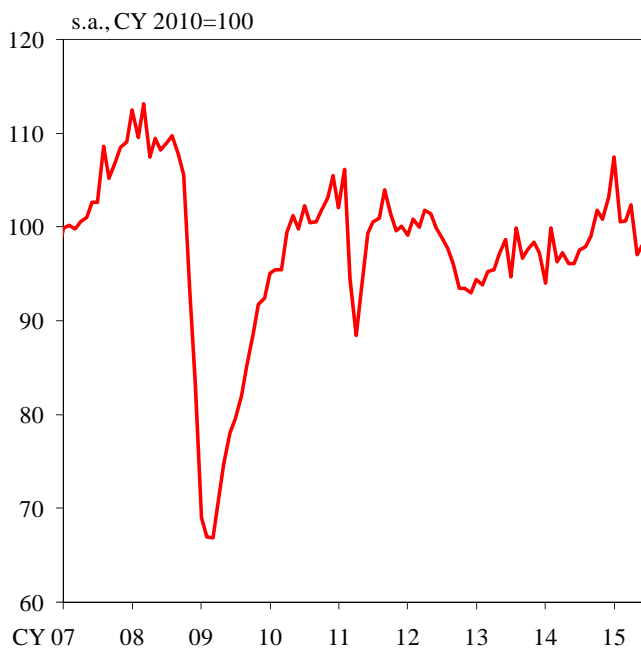


Source: CEIC.

## Exports and Production

*Real Exports*

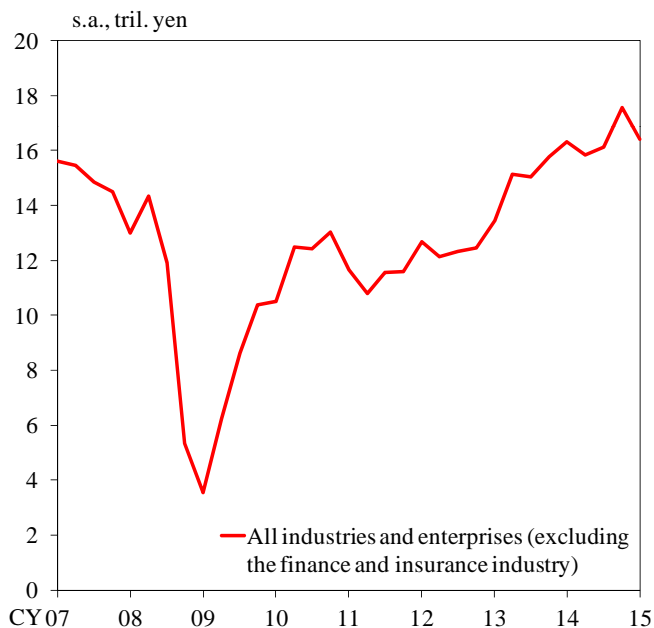
*Industrial Production*



Sources: Ministry of Finance; Bank of Japan; Ministry of Economy, Trade and Industry.

# Corporate Profits and Business Fixed Investment

*Current Profits*



*Tankan: Business Fixed Investment Plans*

		y/y % chg.	
		FY2014	FY2015 (Forecast)
Large Enterprises	Manufacturing	+ 6.2	+ 17.3
	Nonmanufacturing	+ 3.3	+ 6.6
	All industries	+ 4.3	+ 10.3
Small Enterprises	Manufacturing	+ 9.1	- 5.0
	Nonmanufacturing	+ 1.3	- 15.6
	All industries	+ 3.7	- 12.1
All Enterprises	Manufacturing	+ 7.0	+ 13.1
	Nonmanufacturing	+ 3.3	+ 1.7
	All industries	+ 4.6	+ 5.6

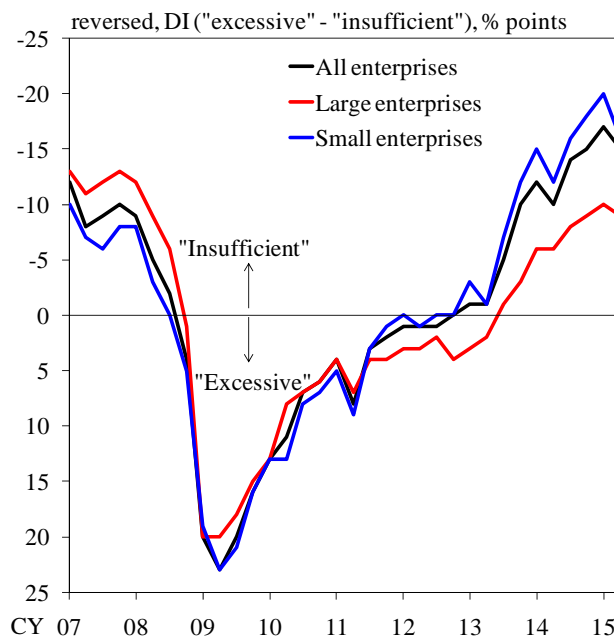
Note: Figures for business fixed investment plans of the *Tankan* include software investment but exclude land purchasing expenses.  
Sources: Ministry of Finance; Bank of Japan.

# Labor Market Conditions

*Unemployment Rate*

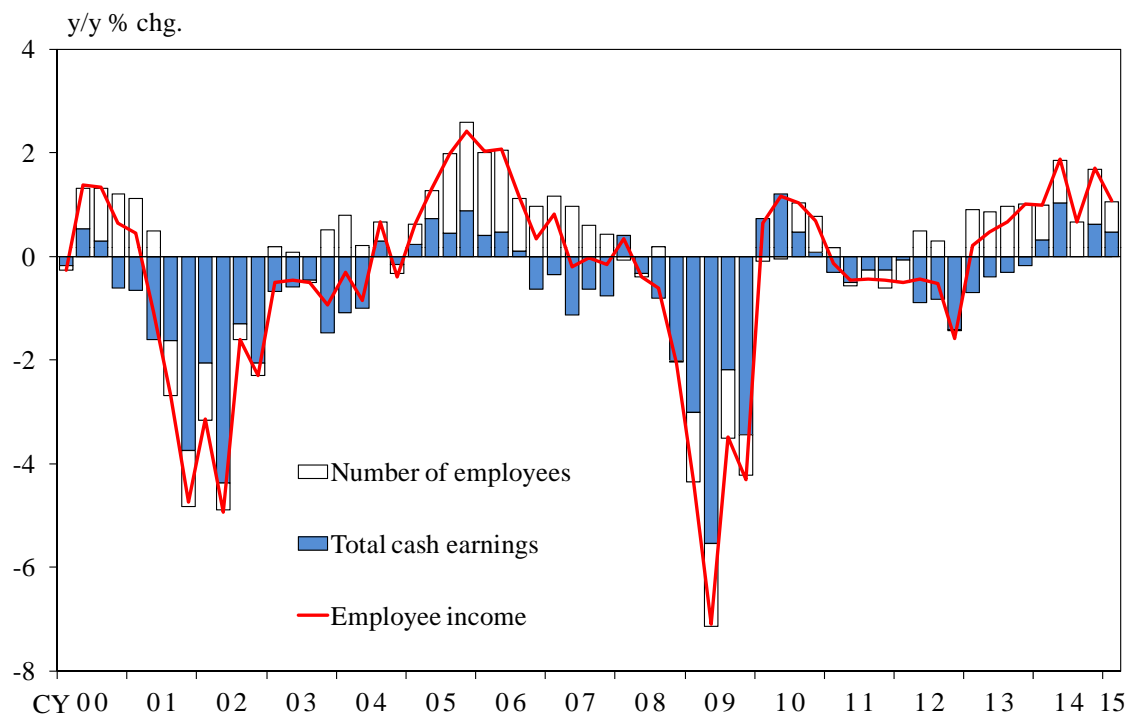


*Tankan: Employment Conditions DI*



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

## Employee Income



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

2. Figures for "employee income" are calculated as the "number of employees" (Labour Force Survey) times "total cash earnings" (Monthly Labour Survey).

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

## Outlook for Economic Activity and Prices (as of July 2015)

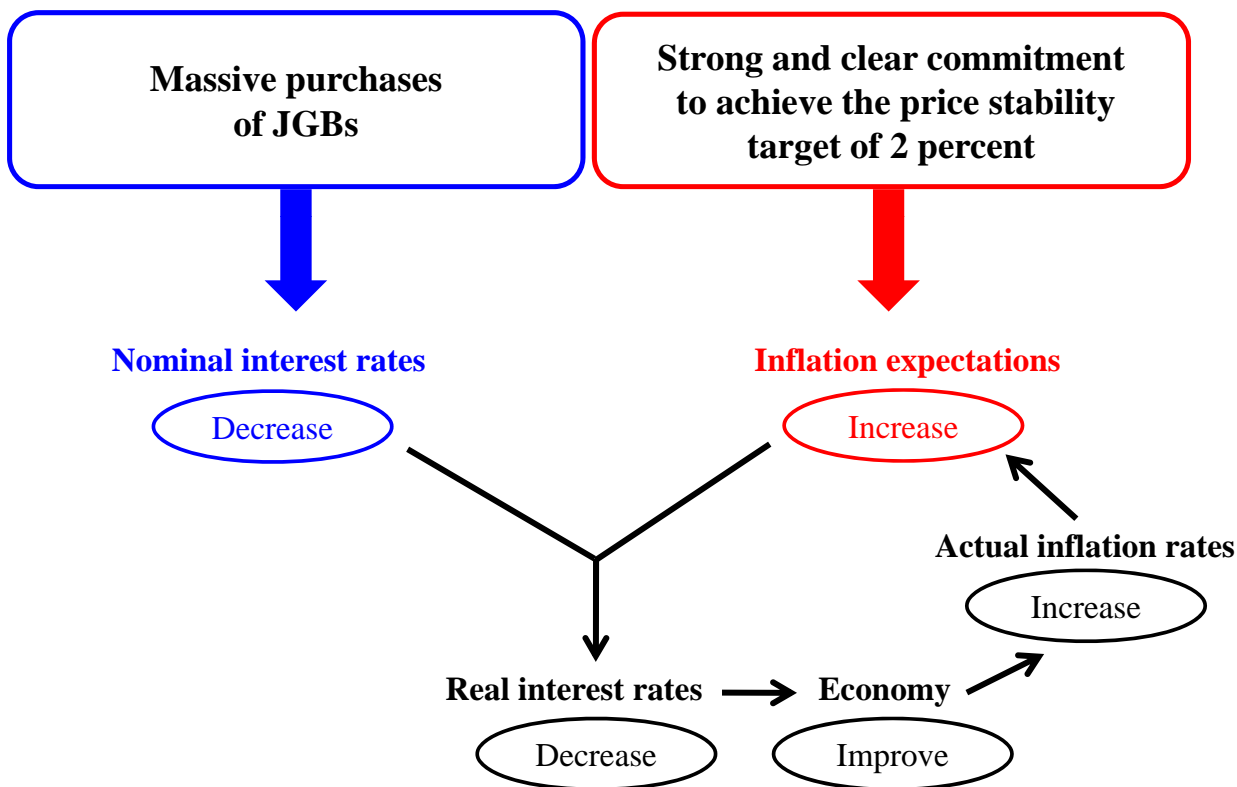
	Real GDP	CPI (all items less fresh food)	Excluding the effects of the consumption tax hikes
Fiscal 2015	+1.7	+0.7	
Forecasts made in April 2015	+2.0	+0.8	
Fiscal 2016	+1.5	+1.9	
Forecasts made in April 2015	+1.5	+2.0	
Fiscal 2017	+0.2	+3.1	+1.8
Forecasts made in April 2015	+0.2	+3.2	+1.9

y/y % chg.

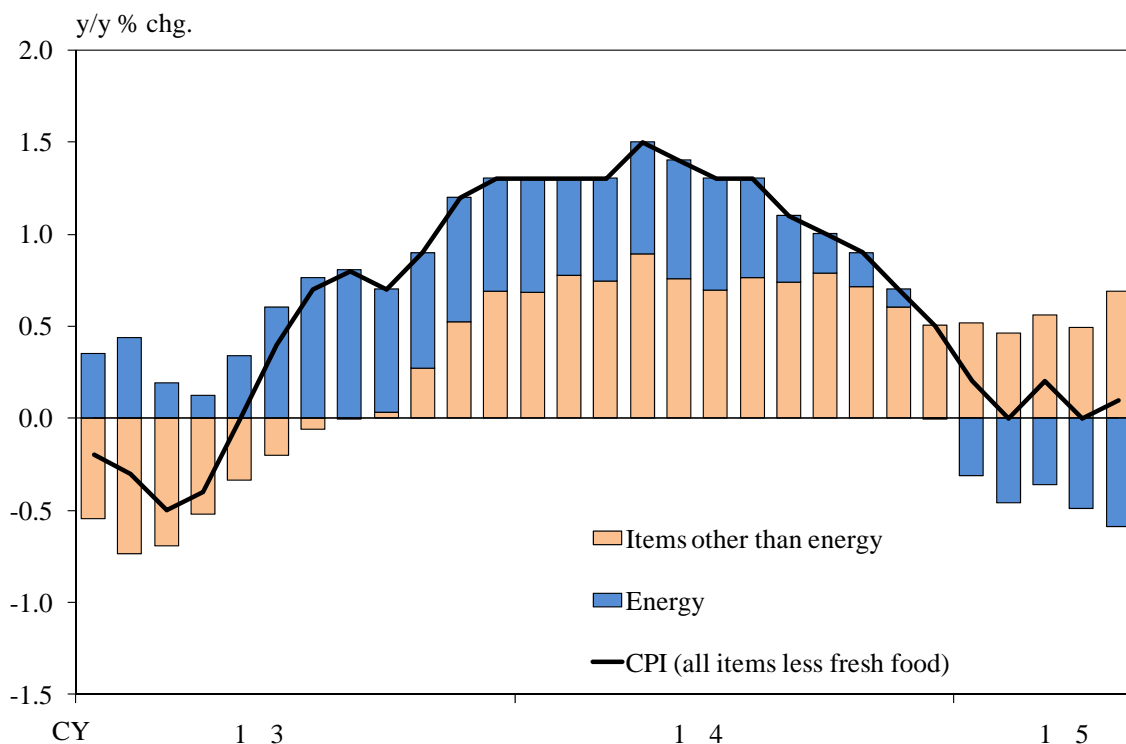
Note: Figures indicate the median of the Policy Board members' forecasts (point estimates).

Source: Bank of Japan.

### Mechanism of QQE



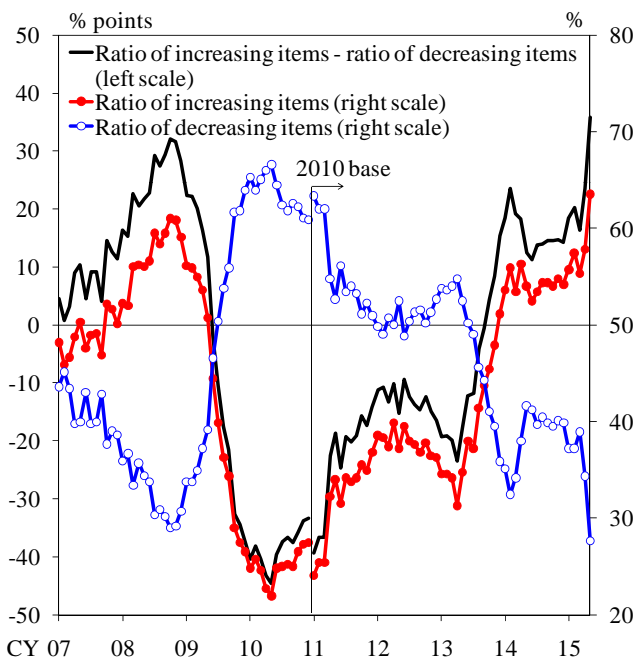
### Consumer Prices



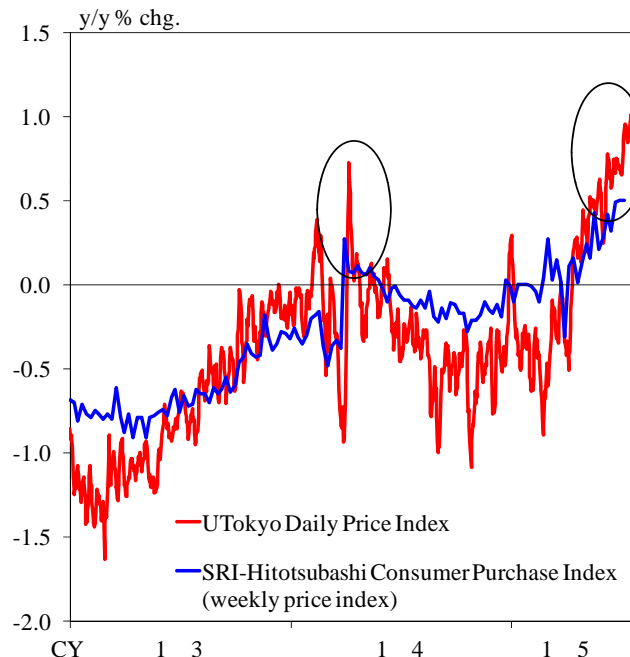
Note: Figures are estimated by adjusting the direct effects of the consumption tax hike in April 2014.  
 Source: Ministry of Internal Affairs and Communications.

# Price Developments

*Ratio of Increasing and Decreasing Items  
(Consumer Price Index)*



*UTokyo Daily Price Index and  
SRI-Hitotsubashi Consumer Purchase Index*

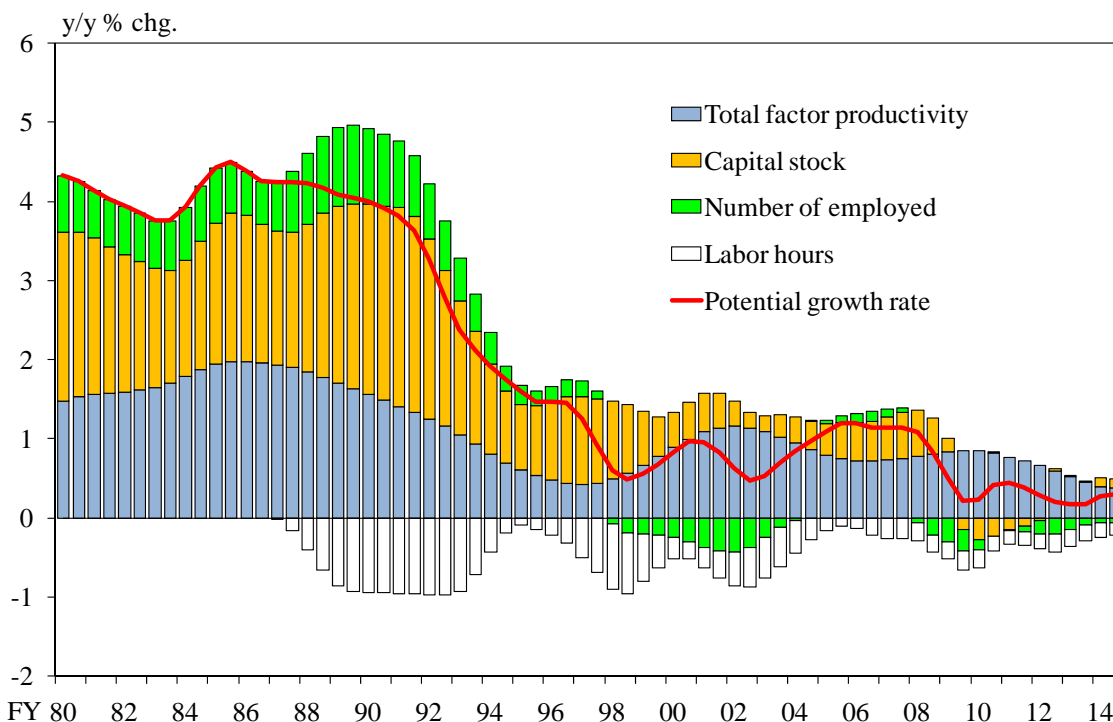


Notes: 1. Figures for the ratio of increasing and decreasing items are proportions of items whose indices increased/decreased from a year earlier. All items less fresh food. Figures are estimated by adjusting the direct effects of the consumption tax hike in April 2014.

2. UTokyo Daily Price Index is a 7-day backward moving average.

Sources: Ministry of Internal Affairs and Communications; UTokyo Daily Price Index Project; Research Center for Economic and Social Risks, Institute of Economic Research, Hitotsubashi University.

# Potential Growth Rate



Note: The potential growth rate 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. Figures for the second half of fiscal 2014 are those of 2014/Q4.

Sources: Cabinet Office; Bank of Japan; Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare; Ministry of Economy, Trade and Industry, etc.