



Economic Activity, Prices, and Monetary Policy in Japan

Speech at a Meeting with Business Leaders in Ibaraki

February 28, 2019

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Global Economy

IMF Projections (as of January 2019)

real GDP growth rate, y/y % chg.

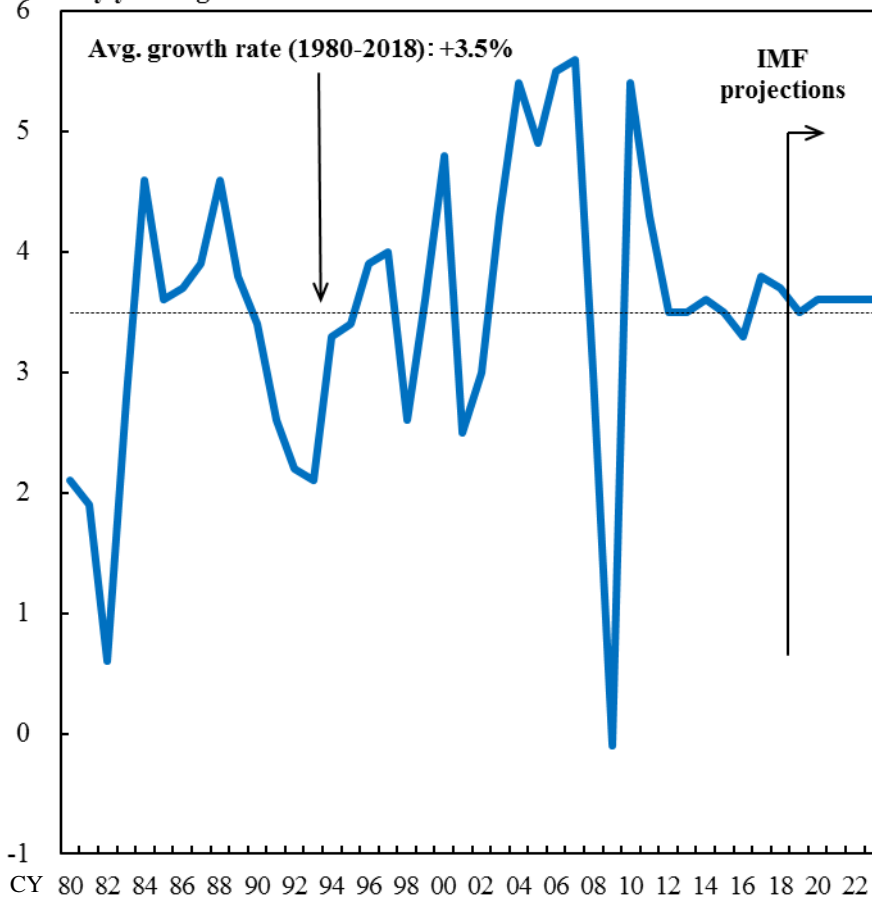
CY	2017	2018	2019 projection	2020 projection
World	3.8	3.7	3.5 (-0.2)	3.6 (-0.1)
Advanced economies	2.4	2.3	2.0 (-0.1)	1.7 (0.0)
United States	2.2	2.9	2.5 (0.0)	1.8 (0.0)
Euro area	2.4	1.8	1.6 (-0.3)	1.7 (0.0)
United Kingdom	1.8	1.4	1.5 (0.0)	1.6 (+0.1)
Japan	1.9	0.9	1.1 (+0.2)	0.5 (+0.2)
Emerging market and developing economies	4.7	4.6	4.5 (-0.2)	4.9 (0.0)
Emerging and developing Asia	6.5	6.5	6.3 (0.0)	6.4 (0.0)
China	6.9	6.6	6.2 (0.0)	6.2 (0.0)
ASEAN	5.3	5.2	5.1 (-0.1)	5.2 0.0
Russia	1.5	1.7	1.6 (-0.2)	1.7 (-0.1)
Latin America and the Caribbean	1.3	1.1	2.0 (-0.2)	2.5 (-0.2)

Source: *World Economic Outlook Update*, International Monetary Fund (IMF).

Note: Figures in parentheses are the difference from the October 2018 projections.

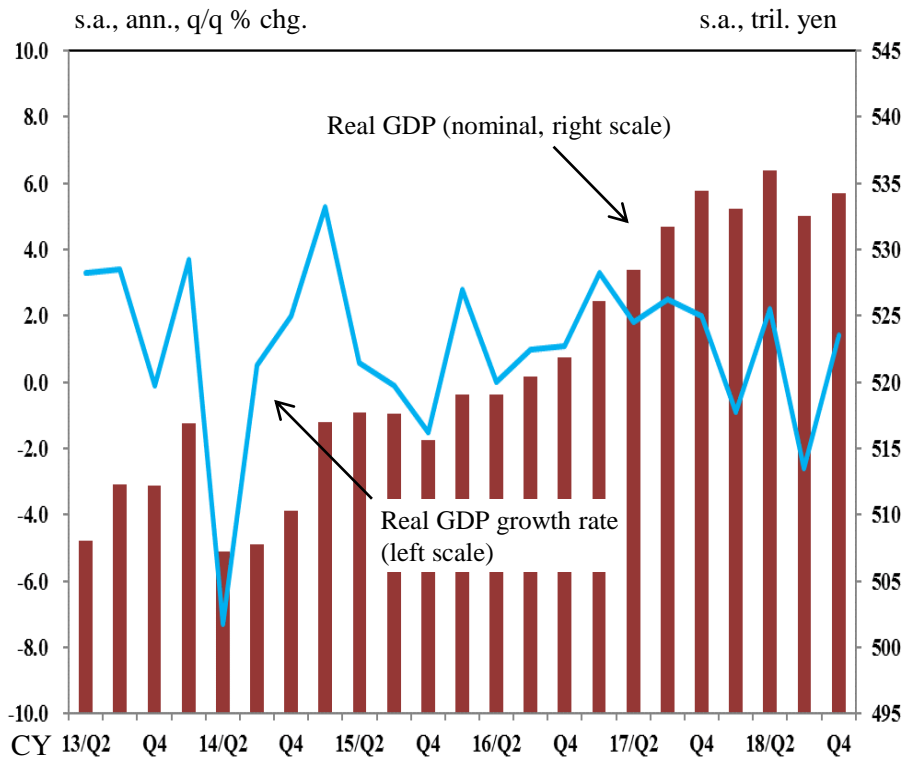
Real GDP Growth Rate

y/y % chg.



Source: IMF.

Japan's Real GDP



Source: Cabinet Office.

s.a., q/q % chg.










	2017	2018			
	Q4	Q1	Q2	Q3	Q4
Real GDP	0.5	-0.2	0.6	-0.7	0.3
[ann., q/q]	[2.0]	[-0.9]	[2.2]	[-2.6]	[1.4]
Private consumption	0.5	-0.2	0.6	-0.2	0.6
Private non-resi. investment	0.8	1.0	2.5	-2.7	2.4
Private residential investment	-3.2	-2.0	-2.0	0.5	1.1
Public demand	-0.0	0.0	-0.1	-0.3	0.4
Exports of goods & services	2.2	0.4	0.4	-1.4	0.9

Source: Cabinet Office.

Regional Economic Assessments

Chart 3

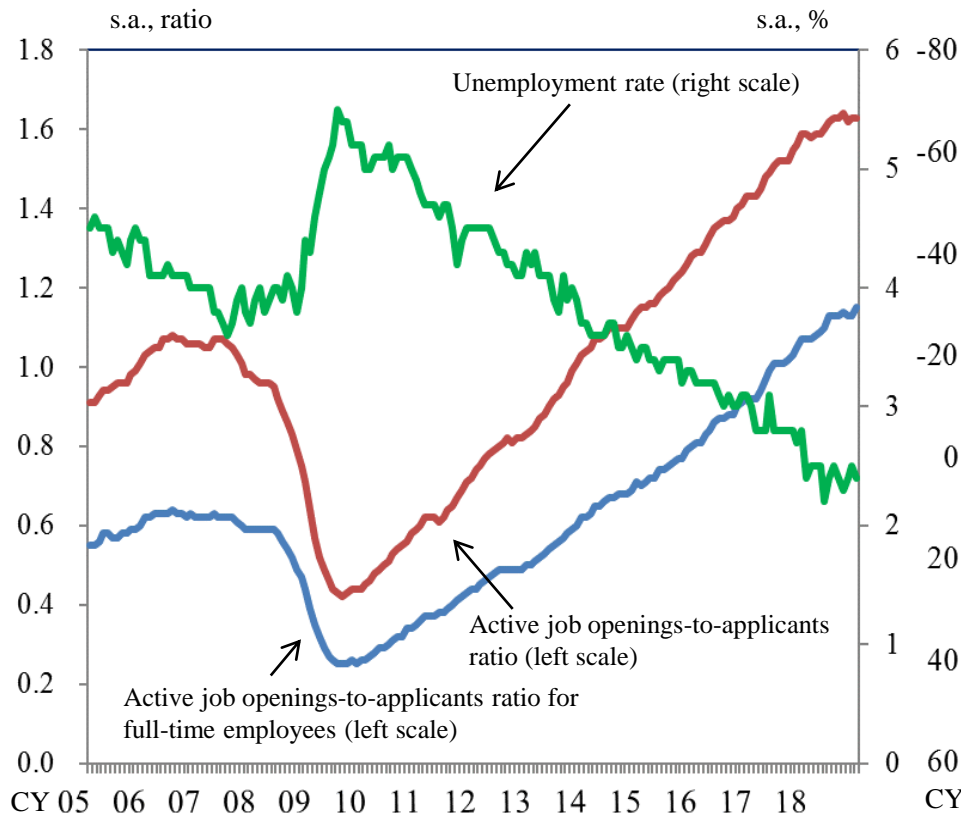
Comparison of Previous and Current Assessments by Region

Region	Assessment in October 2018	Changes from the previous assessment	Assessment in January 2019
Hokkaido	The economy has been recovering moderately as a trend, although downward pressure due to the effects of the 2018 Hokkaido Eastern Iburi Earthquake is being observed.		The economy has been recovering moderately as a trend, and downward pressure due to the effects of the 2018 Hokkaido Eastern Iburi Earthquake has continued to ease.
Tohoku	The economy has continued to recover moderately.		The economy has continued to recover moderately.
Hokuriku	The economy has been expanding.		The economy has been expanding.
Kanto-Koshinetsu	The economy has been expanding moderately.		The economy has been expanding moderately.
Tokai	The economy has been expanding.		The economy has been expanding.
Kinki	The economy has been expanding moderately, although effects of Typhoon No. 21 are being observed in economic activity.		The economy has continued to expand moderately.
Chugoku	Although the economy was damaged by the heavy rain in July 2018, it has been expanding moderately as a trend, amid the effects of the heavy rain waning, mainly reflecting the restoration of social infrastructure.		The economy has been expanding moderately.
Shikoku	The economy has been recovering.		The economy has been recovering.
Kyushu-Okinawa	The economy has been expanding moderately, with its growth gaining a more solid footing.		The economy has been expanding moderately, with its growth gaining a more solid footing.

Source: January 2019 *Regional Economic Report*, Bank of Japan.

Labor Market Conditions

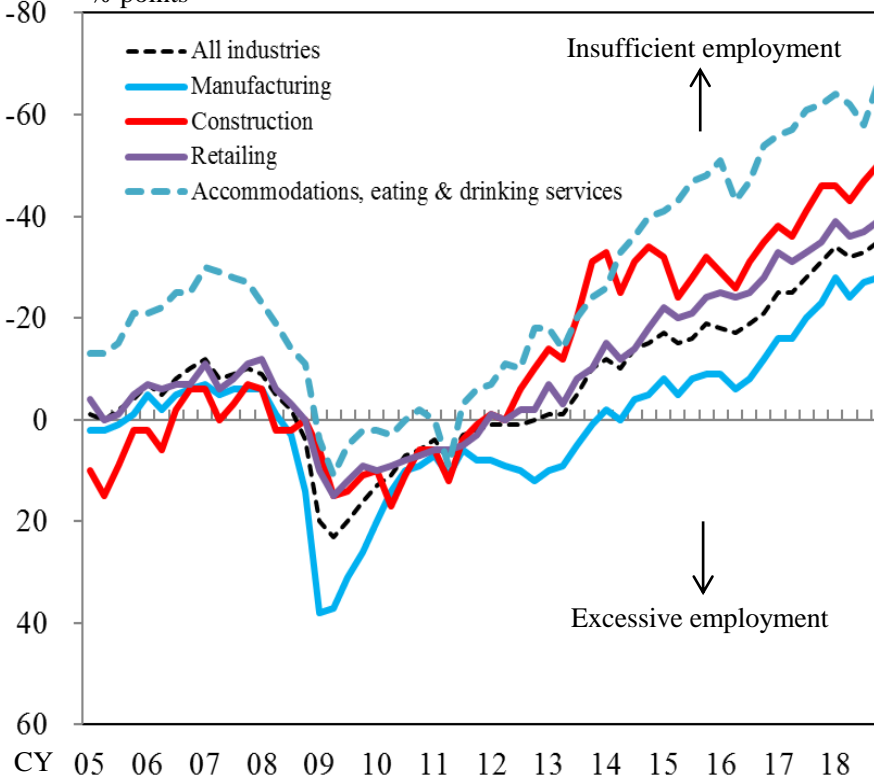
Unemployment Rate and Active Job Openings-to-Applicants Ratio



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

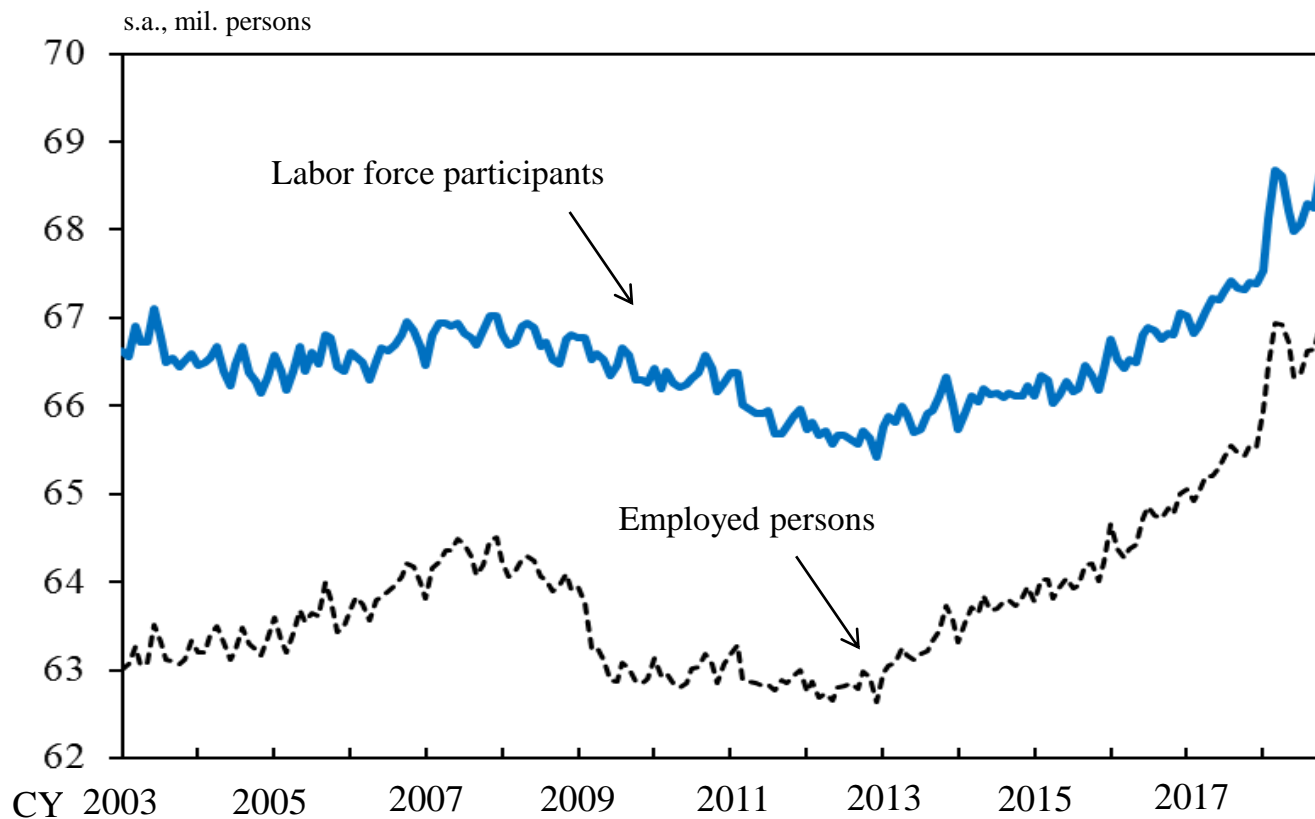
Diffusion Index (DI) for Employment Conditions

reversed, DI ("excessive employment" minus "insufficient employment"), % points



Source: *Tankan* (Short-Term Economic Survey of Enterprises in Japan), Bank of Japan.

Labor Force Participation and Employment



Source: Ministry of Internal Affairs and Communications.

Outlook for Economic Activity and Prices as of January 2019

Forecasts of the Majority of Policy Board Members

y/y % chg.

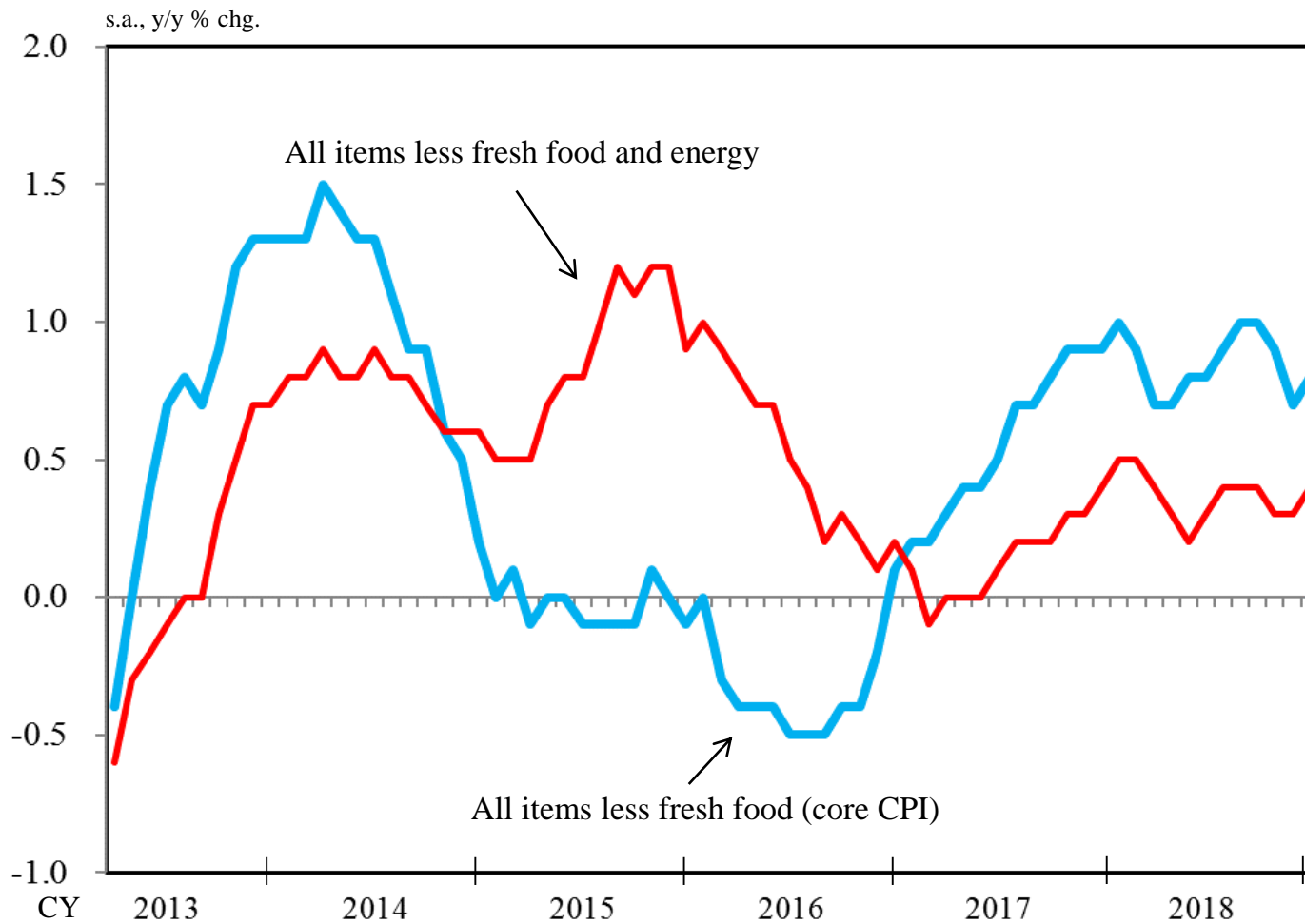
	Real GDP	CPI (all items less fresh food)
Fiscal 2018	+0.9 to +1.0 [+0.9]	+0.8 to +0.9 [+0.8]
Forecasts made in October 2018	+1.3 to +1.5 [+1.4]	+0.9 to +1.0 [+0.9]
Fiscal 2019	+0.7 to +1.0 [+0.9]	+1.0 to +1.3 [+1.1]
Forecasts made in October 2018	+0.8 to +0.9 [+0.8]	+1.5 to +1.7 [+1.6]
Fiscal 2020	+0.7 to +1.0 [+1.0]	+1.3 to +1.5 [+1.5]
Forecasts made in October 2018	+0.6 to +0.9 [+0.8]	+1.5 to +1.7 [+1.6]

Source: January 2019 *Outlook for Economic Activity and Prices*, Bank of Japan.

Notes: 1. Figures in brackets indicate the medians of the Policy Board members' forecasts (point estimates).

2. The forecasts assume the following: (1) the consumption tax will be raised to 10 percent in October 2019 and a reduced tax rate will be applied to food and beverages -- excluding alcohol and dining out -- and newspapers, and (2) with regard to policies concerning the provision of free education, free early childhood education and such measures as free higher education will be introduced in October 2019 and April 2020, respectively.

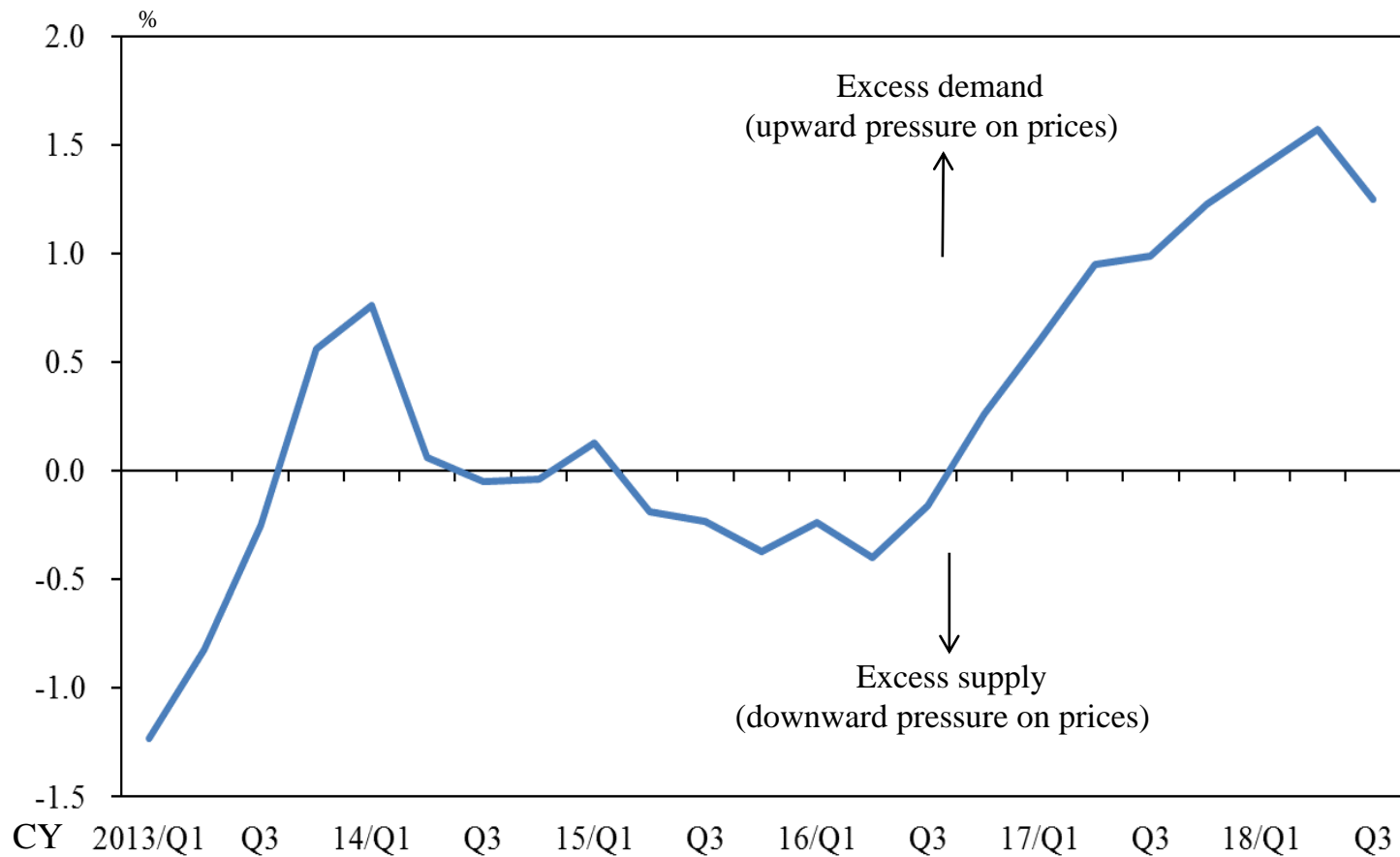
CPI



Source: Ministry of Internal Affairs and Communications.

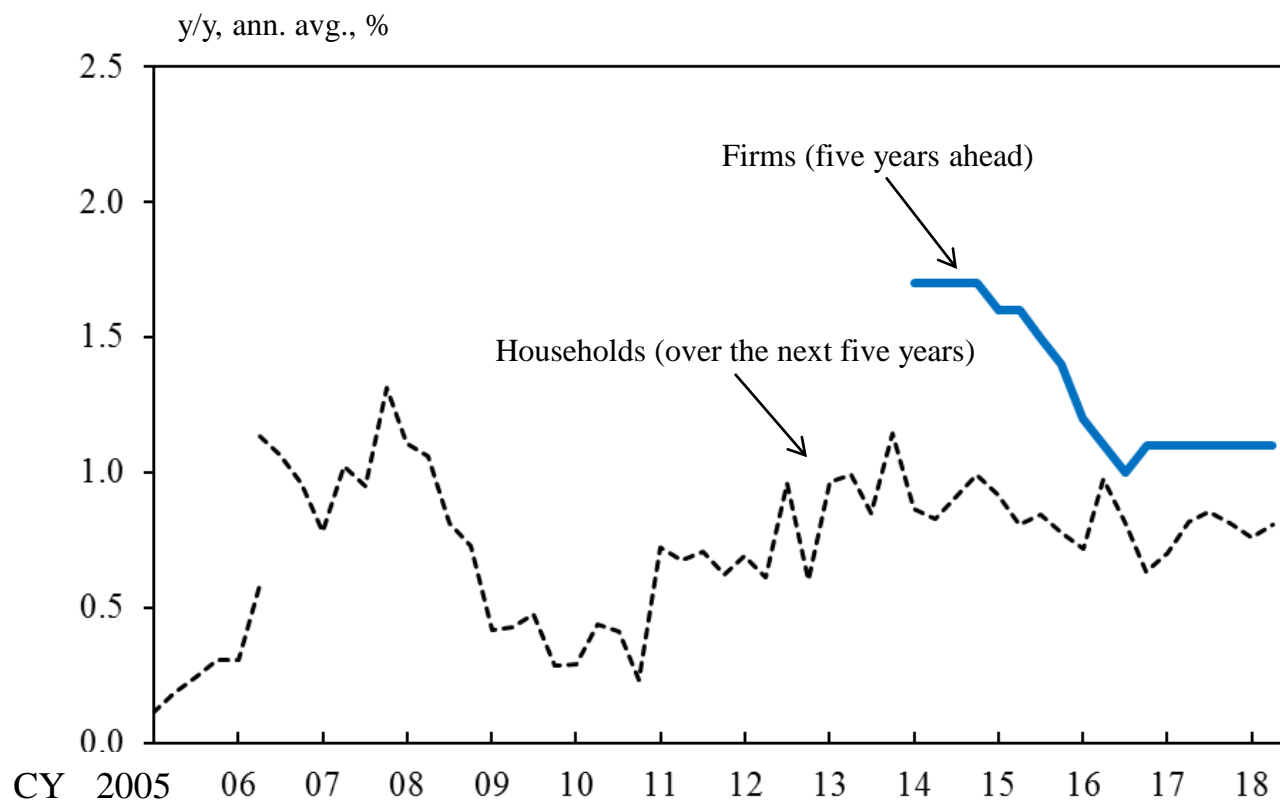
Note: Figures are adjusted for the effects of consumption tax hikes.

Output Gap



Source: Bank of Japan.
 Note: Based on staff estimations.

Inflation Expectations

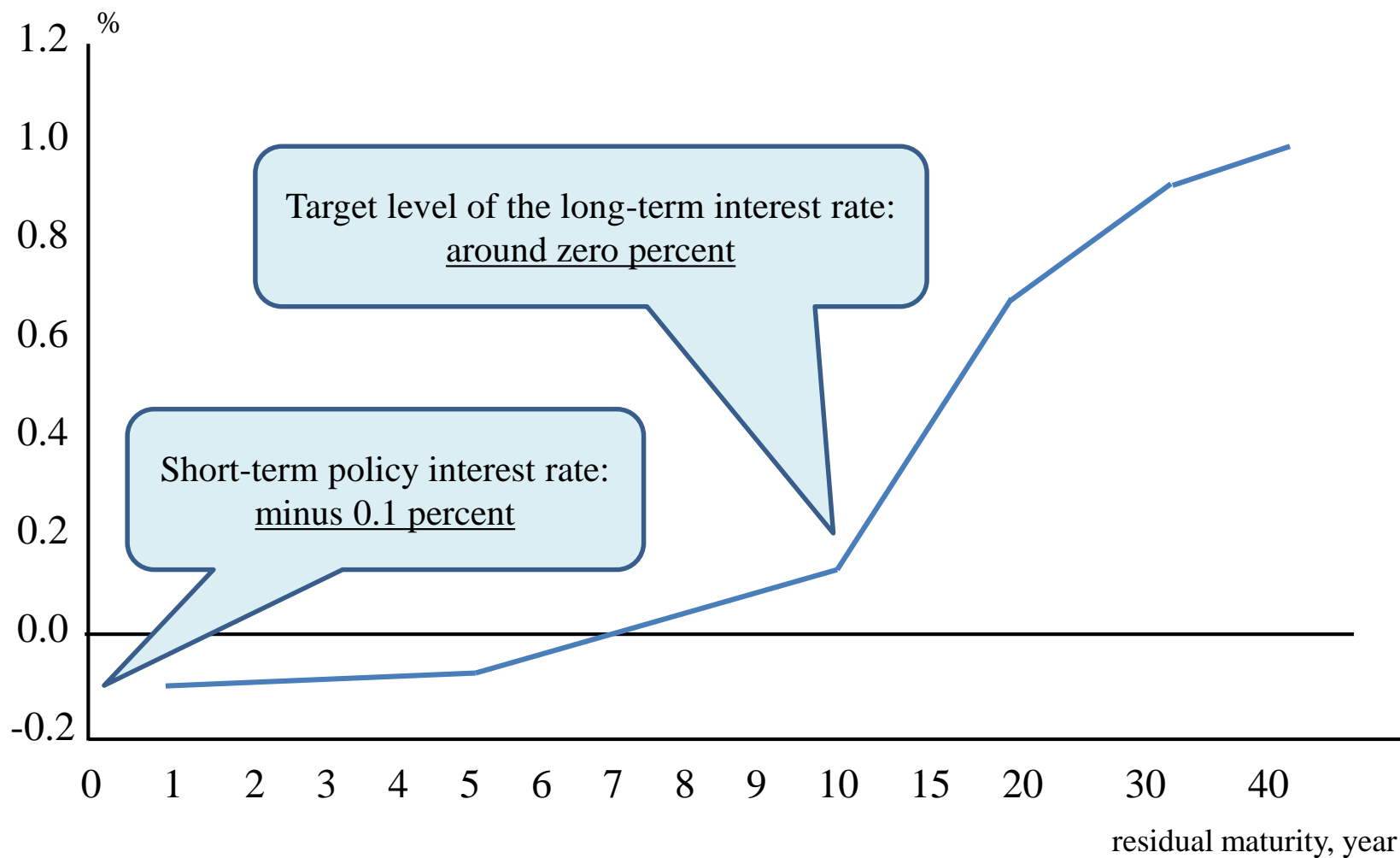


Source: Bank of Japan.

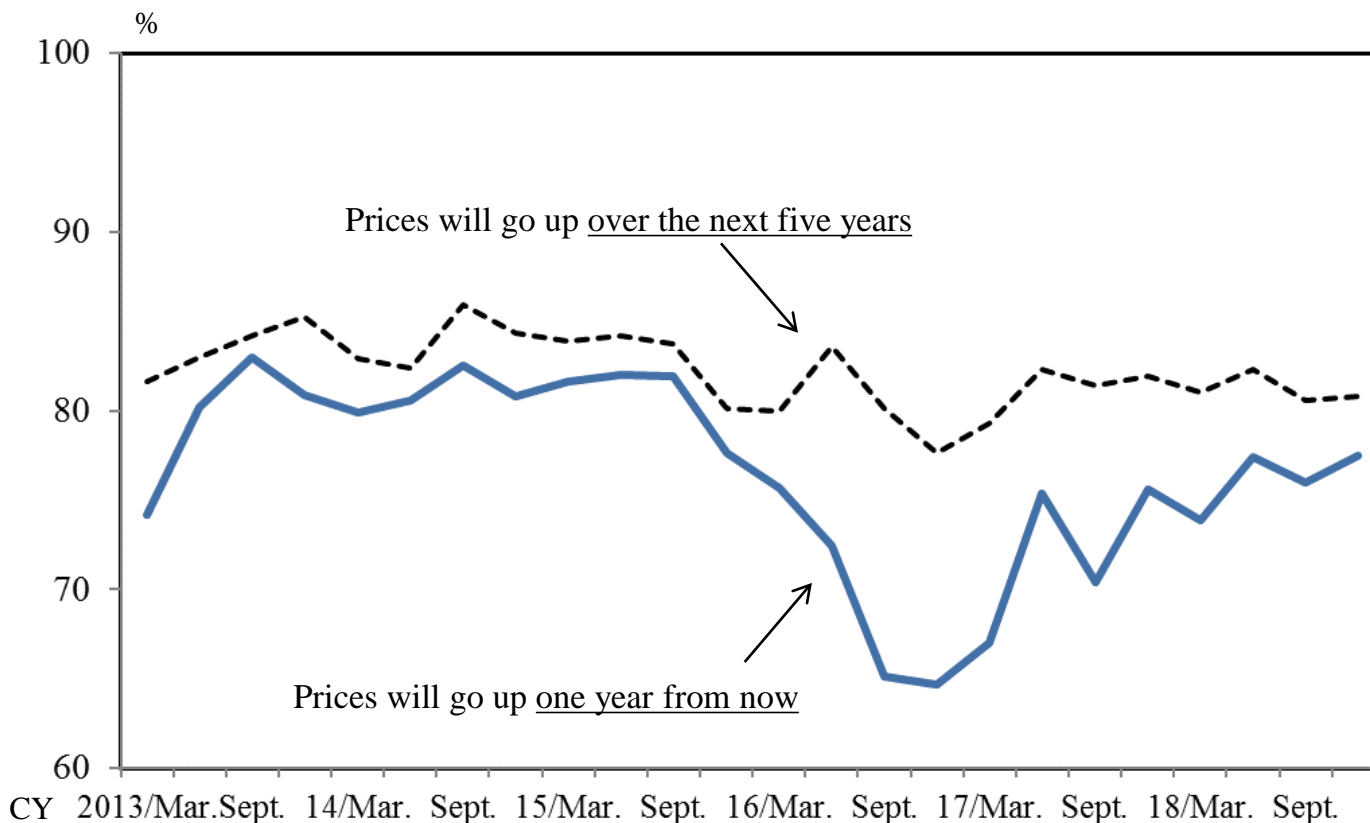
Notes: 1. Figures for households are from the *Opinion Survey on the General Public's Views and Behavior* (Opinion Survey), estimated using the modified Carlson-Parkin method.

2. Figures for firms are those for the "outlook for general prices (all industries and enterprises, average)" in the *Tankan*.

Yield Curve Control



Perception of Future Prices



Source: December 2018 Opinion Survey, Bank of Japan.

Notes: 1. Disregarding the effects of consumption tax hikes.

2. Figures for both one year from now and over the next five years comprise the choices "will go up significantly" and "will go up slightly" that are found in the questionnaire.

Strengthening the Framework for Continuous Powerful Monetary Easing

Likely to take more time than expected to achieve the price stability target of 2%

Appropriate to maintain the output gap within positive territory for as long as possible

Persistently Continuing with Powerful Monetary Easing

Forward guidance for policy rates

"The Bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, taking into account uncertainties regarding economic activity and prices including the effects of the consumption tax hike scheduled to take place in October 2019."

Yield curve control and ETF purchases

The long-term interest rate: The Bank will purchase JGBs so that 10-year JGB yields will remain at around zero percent. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices.

ETF purchases: The Bank will purchase ETFs so that their amount outstanding will increase at an annual pace of about 6 trillion yen. The Bank may increase or decrease the amount of purchases depending on market conditions.

Achieving the price stability target of 2% at the earliest possible time while securing stability in economic and financial conditions