

# Japan's Economy and Monetary Policy

*Speech at a Meeting with Business Leaders in Kagoshima*

August 1, 2019

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## Introduction

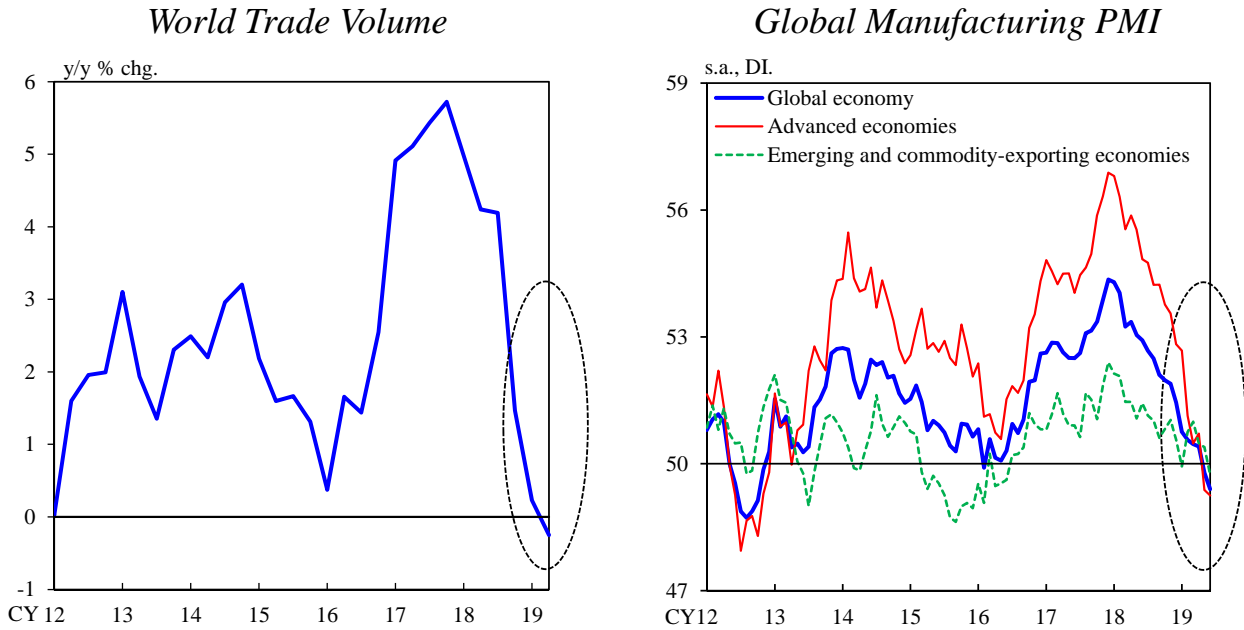
I. Financial and Economic Developments

II. Price Developments

III. The Bank's Conduct of Monetary Policy

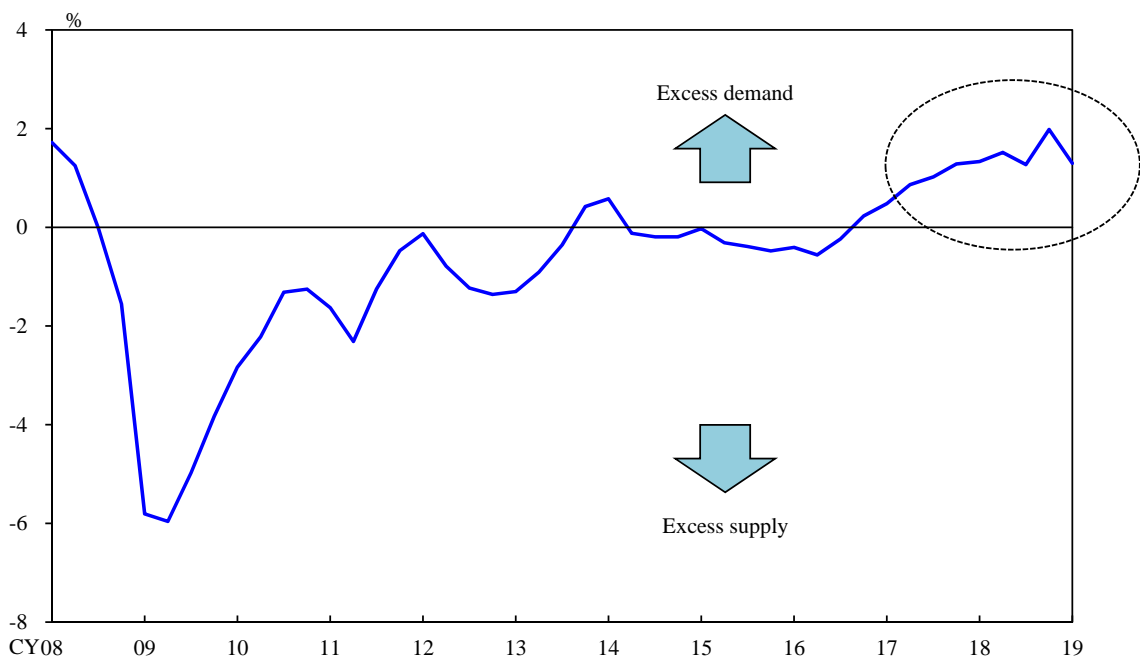
Conclusion

# Developments in the Global Economy



Notes: 1. In the left chart, figures for the trade volume are those for real imports.  
 2. In the right chart, figures for the global economy are the "J.P. Morgan Global Manufacturing PMI." Figures for advanced economies as well as emerging and commodity-exporting economies are calculated as the weighted averages of the Manufacturing PMI using GDP shares of world total GDP from the IMF as weights. Advanced economies consist of the United States, the euro area, the United Kingdom, and Japan. Emerging and commodity-exporting economies consist of 17 countries and regions, such as China, South Korea, Taiwan, Russia, and Brazil.  
 Sources: CPB Netherlands Bureau for Economic Policy Analysis; IHS Markit (© and database right IHS Markit Ltd 2019. All rights reserved.), etc.

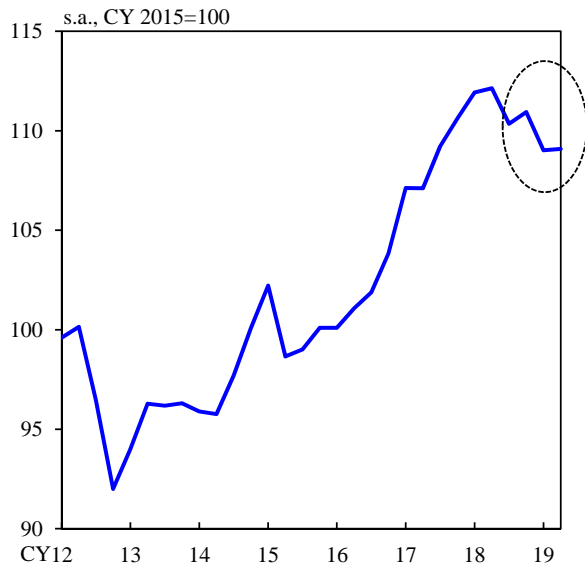
# Output Gap



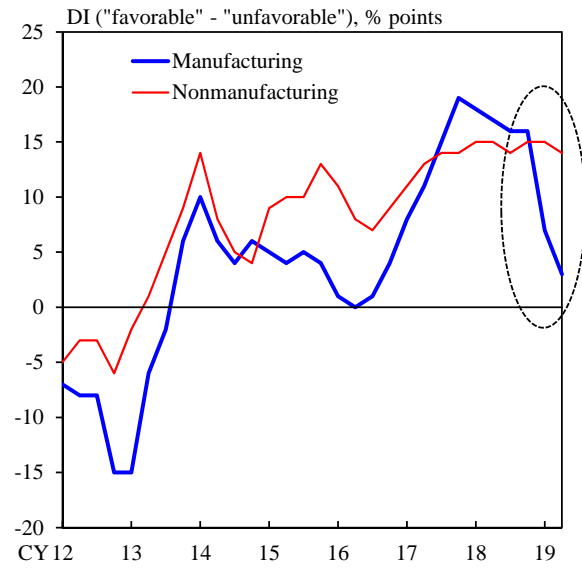
Note: The output gap is based on BOJ staff estimations.  
 Source: Bank of Japan.

## Exports and Business Conditions

*Real Exports*

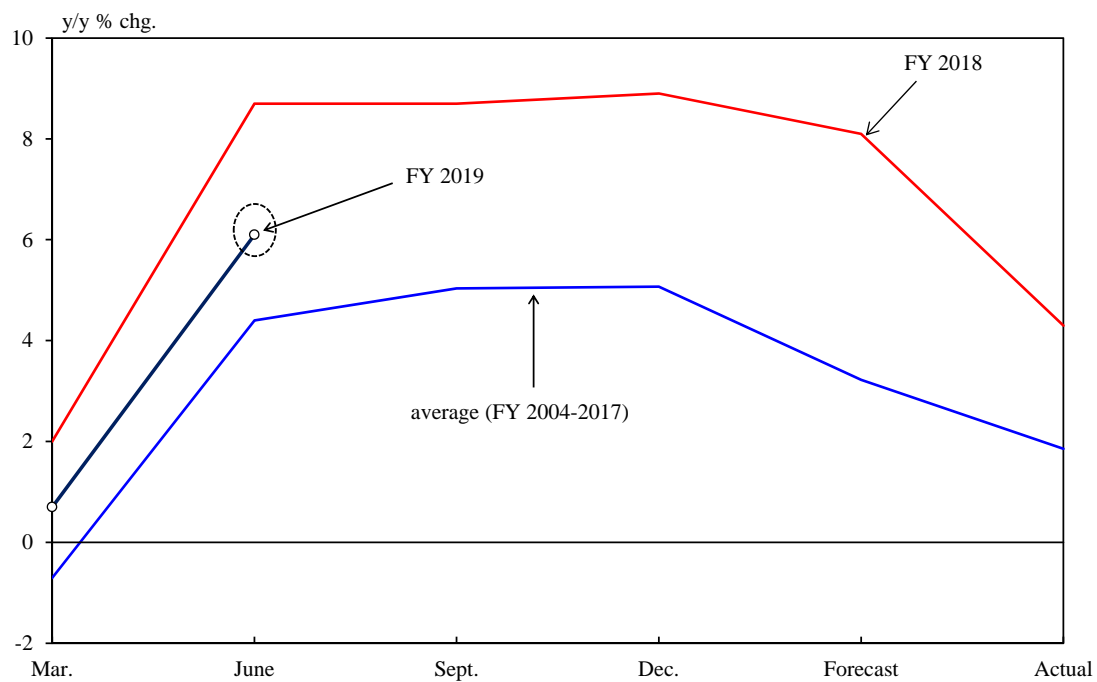


*Business Conditions DI (Tankan)*



Sources: Bank of Japan; Ministry of Finance.

## Business Fixed Investment Plans (Tankan)



Note: Figures are all industries including financial institutions. Including software and R&D investment and excluding land purchasing expenses (R&D investment is not included until the December 2016 survey).  
Source: Bank of Japan.

## Outlook for Economic Activity and Prices (July 2019 Outlook Report)

the medians of the Policy Board members' forecasts, y/y % chg.

	Real GDP	CPI (all items less fresh food)	(Reference) Excluding the effects of the consumption tax hike and policies concerning the provision of free education
Fiscal 2019	+0.7	+1.0	+0.8
Forecasts made in April 2019	+0.8	+1.1	+0.9
Fiscal 2020	+0.9	+1.3	+1.2
Forecasts made in April 2019	+0.9	+1.4	+1.3
Fiscal 2021	+1.1	+1.6	
Forecasts made in April 2019	+1.2	+1.6	

Note: The direct effects of the consumption tax hike on the CPI for fiscal 2019 and fiscal 2020 are estimated to be 0.5 percentage point for each fiscal year. Those of policies concerning the provision of free education on the CPI for fiscal 2019 and fiscal 2020 are estimated to be minus 0.3 percentage point and minus 0.4 percentage point, respectively.

Source: Bank of Japan.

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## Overseas Economies

*IMF Projections for Major Economies (as of July 2019)*

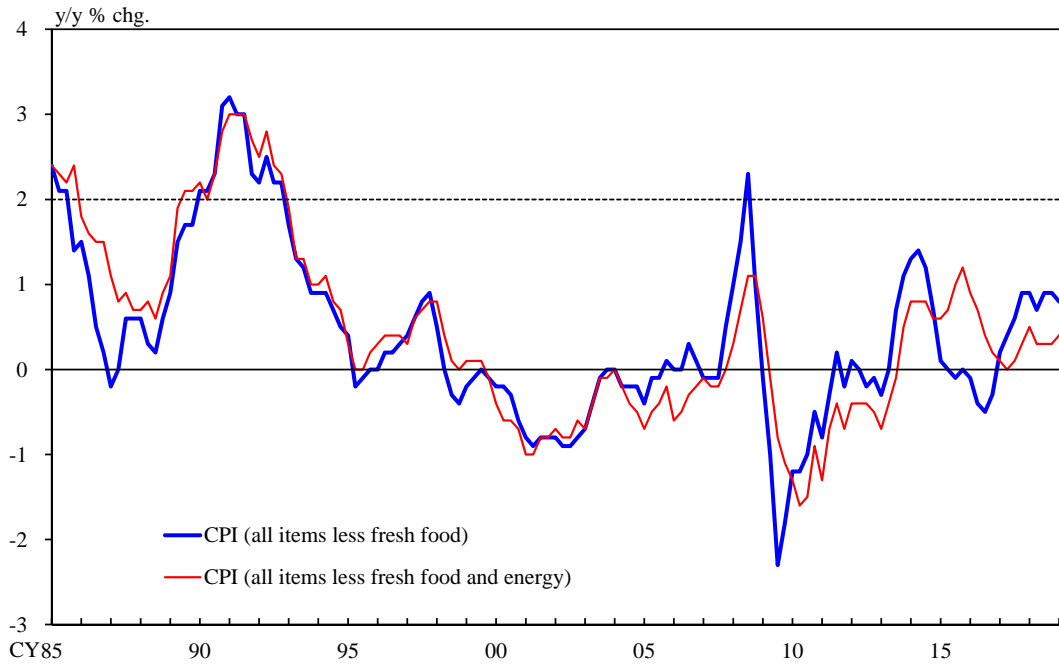
y/y % chg.

	2017	2018	2019 Projection	2020 Projection
World	3.8	3.6	3.2	3.5
Advanced economies	2.4	2.2	1.9	1.7
United States	2.2	2.9	2.6	1.9
Euro area	2.4	1.9	1.3	1.6
Japan	1.9	0.8	0.9	0.4
Emerging market and developing economies	4.8	4.5	4.1	4.7
China	6.8	6.6	6.2	6.0
ASEAN-5	5.3	5.2	5.0	5.1
Latin America and the Caribbean	1.2	1.0	0.6	2.3

Source: IMF.

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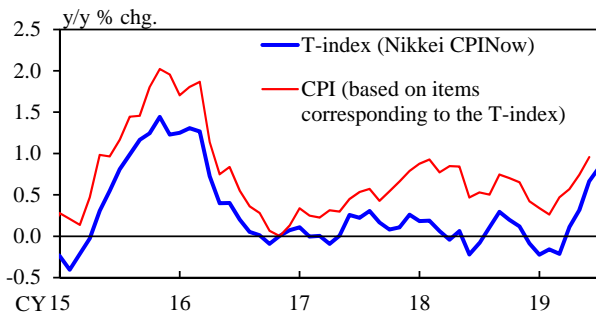
## Consumer Prices



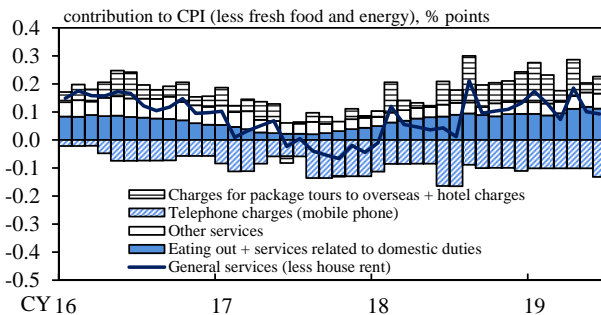
Note: Figures are adjusted for changes in the consumption tax rate.  
 Source: Ministry of Internal Affairs and Communications.

## Price Situation

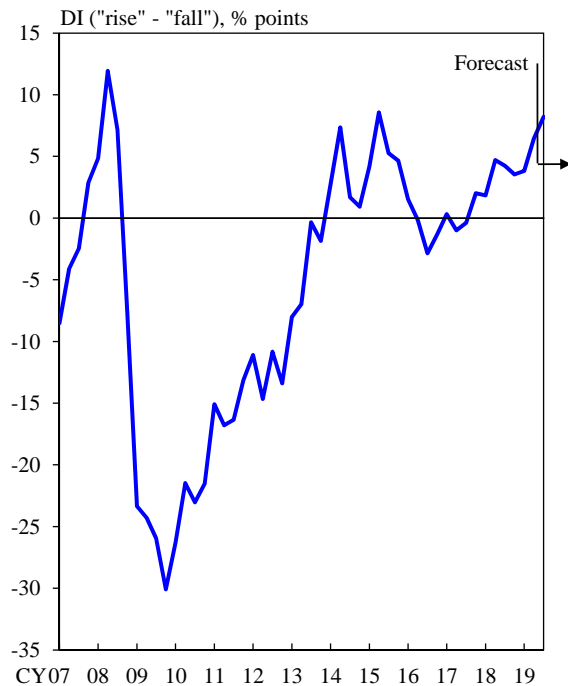
### Sales Prices at Supermarkets



### General Services



### Output Prices DI of Industries Related to Consumption (Tankan)

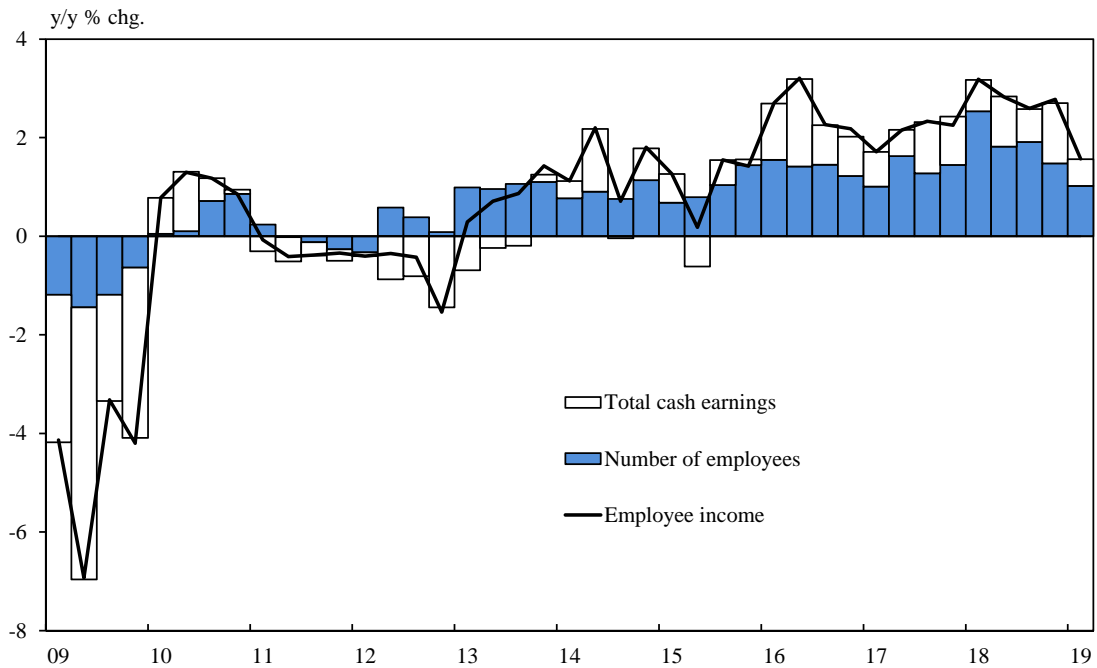


Notes: 1. In the top left chart, figures are adjusted for changes in the consumption tax rate.

2. In the right chart, figures are the weighted averages of the output prices DI of "retailing," "services for individuals," and "accommodations, eating and drinking services," using the number of enterprises that responded to the question as weights.

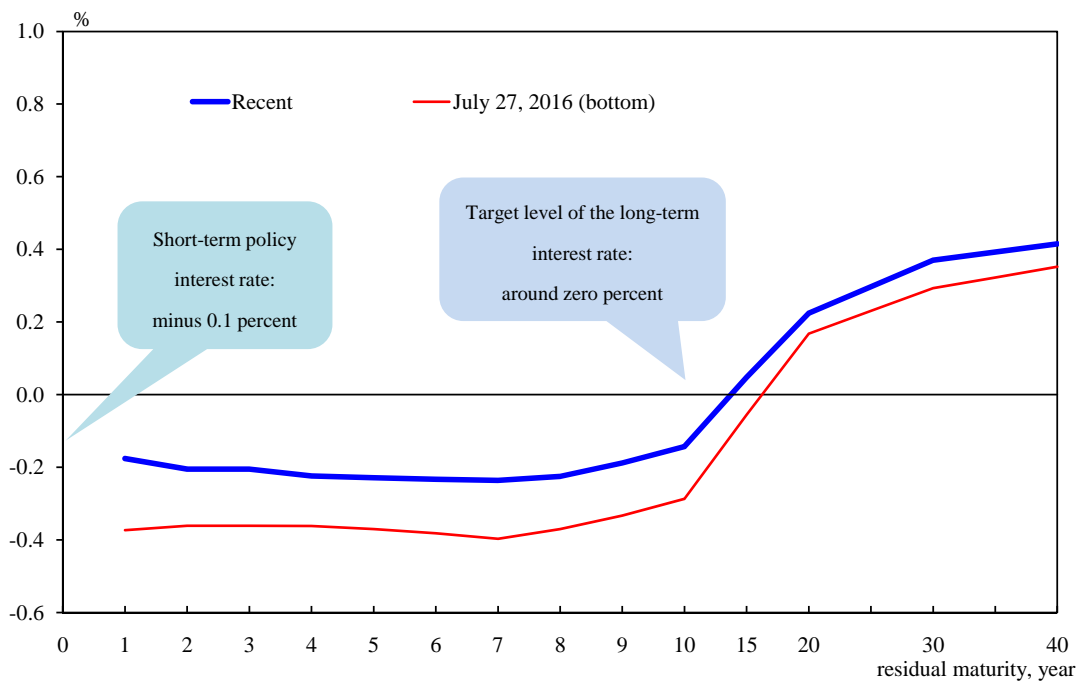
Sources: NOWCAST, Inc.; Ministry of Internal Affairs and Communications; Bank of Japan.

### Employee Income



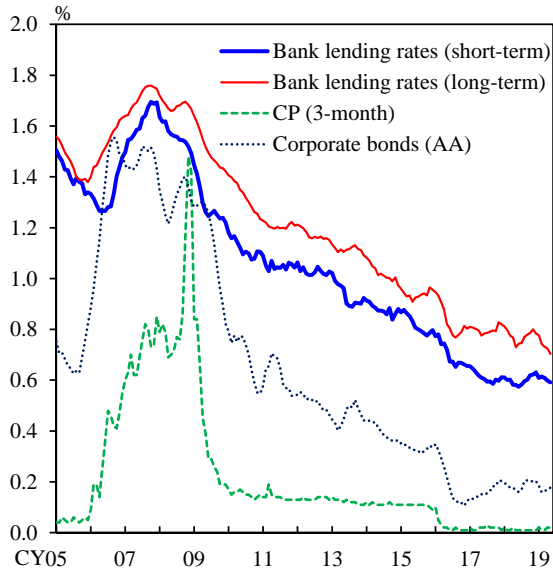
Notes: 1. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.  
 2. Employee income = total cash earnings ("Monthly Labour Survey") × number of employees ("Labour Force Survey")  
 3. Figures of the "Monthly Labour Survey" from 2013/Q1 are based on corrected figures adjusted for establishments in Tokyo with 500 or more employees.  
 4. Figures from 2016/Q1 are based on continuing observations following the sample revisions of the "Monthly Labour Survey."  
 Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

### Yield Curve Control

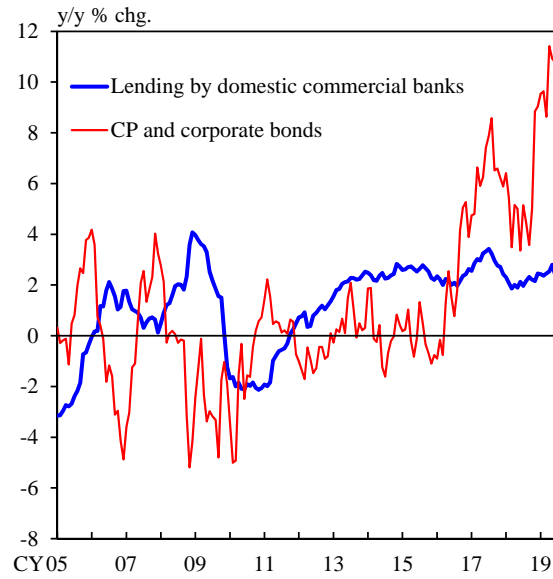


# Financial Conditions

*Bank Lending Rates and Issuance Yields for CP and Corporate Bonds*



*Amount Outstanding of Bank Lending, CP, and Corporate Bonds*



Notes: 1. In the left chart, figures for issuance yields for CP up to September 2009 are the averages for CP (3-month, rated a-1 or higher). Those from October 2009 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 and issuance yields for corporate bonds show 6-month backward moving averages.

2. In the right chart, figures for lending by domestic commercial banks are monthly averages. Figures for CP and corporate bonds are those at the end of period.

Sources: Bank of Japan; Japan Securities Depository Center; Capital Eye; I-N Information Systems; Japan Securities Dealers Association; Bloomberg.