Japan's Economy and Monetary Policy

Speech at a Meeting with Business Leaders in Ehime

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I. Financial and Economic Developments

Global Growth Rate

Note: Figures for 2020 and 2021 are the IMF's projections as of January 2020.
Source: IMF.
Global Decoupling between the Manufacturing and Nonmanufacturing Sectors

Manufacturing Sector:
- Heightening uncertainties (U.S.-China trade friction)
- Adjustments in the cycle for IT-related goods
- Postponement of business fixed investment
- Decline in trade volume
- Progress in U.S.-China trade talks and Brexit

Nonmanufacturing Sector:
- Accommodative financial conditions
- Tight labor market conditions
- Steady consumer sentiment

"Decoupling" between the two sectors is highlighted with arrows indicating changes and developments in both sectors.

Developments in the Global Manufacturing Sector

Global Business Sentiment in the Manufacturing Sector

World Semiconductor Shipments

Notes:
1. In the left chart, figures are for the "J.P. Morgan Global Manufacturing PMI."
2. In the right chart, figures are based on BOJ staff estimates using WSTS data.
Source: IHS Markit (© and database right IHS Markit Ltd 2020. All rights reserved.)
I. Financial and Economic Developments

Chart 4

**Business Fixed Investment**

- **Real Business Fixed Investment**
  - Chart showing real business fixed investment from CY 94 to CY 18.
  - Notes: 1. For details relevant to the middle chart, see BOX 3 in the January 2020 Outlook Report. 2. In the right chart, figures are from the survey for fiscal 2018. For details, see BOX 3 in the January 2020 Outlook Report.

- **Average Age of Fixed Capital Stock**
  - Chart showing the average age of fixed capital stock.

- **Firms’ Use of Information Technology**
  - Chart showing the percentage of firms using various technologies such as Big data, AI, IoT, Cloud computing, and RPA, for productivity enhancement, creation of new business, data analysis, sales enhancement, and others.

Sources: Cabinet Office; Research Institute of Economy, Trade and Industry; Ministry of Internal Affairs and Communications; Japan Users Association of Information Systems.

I. Financial and Economic Developments

Chart 5

**Private Consumption**

- **Long-Term Developments (Quarterly)**
  - Chart showing the consumption activity index from CY 09 to CY 19.

- **Recent Developments (Monthly)**
  - Chart showing the consumption activity index from Jan 18 to Jul 19.

Note: Figures are for the Consumption Activity Index (travel balance adjusted, real). They exclude inbound tourism consumption and include outbound tourism consumption.

Sources: Bank of Japan, etc.
Government Spending

I. Financial and Economic Developments

Public Investment

Simulation

<Case: Public Investment Increases by 1%
of Nominal GDP during the First Year>

Note: For details relevant to the right chart, see BOX 1 in the January 2020 Outlook Report.
Sources: Cabinet Office; Ministry of Land, Infrastructure, Transport and Tourism; Bank of Japan, etc.

BOJ's Economic Forecasts

Real GDP

<January 2020 Outlook Report>

Note: Forecasts are the medians of the Policy Board members' forecasts (point estimates).
Sources: Cabinet Office; Bank of Japan.
I. Financial and Economic Developments

Chart 8

Uncertainties regarding Overseas Economies

Policy Uncertainty Index

World Trade Volume and Global Machinery Investment

Note: In the right chart, figures for world trade volume are for real imports.
Sources: Economic Policy Uncertainty; CPB Netherlands Bureau for Economic Policy Analysis; IMF.

Chart 9

Developments in Private Consumption before and after the Consumption Tax Hikes

Durable Goods
(Automobiles + Household Electrical Appliances)
s.a., average 16-18 months before the tax hike=100

Nondurable Goods
s.a., average 16-18 months before the tax hike=100

Notes: 1. Month 0 is the month in which the consumption tax rate was raised – namely, April 2014 or October 2019.
2. In the right chart, nondurable goods include goods classified as "semi-durable goods" in the SNA.
Sources: Bank of Japan, etc.
I. Financial and Economic Developments

Chart 10

Developments in Consumer Sentiment before and after the Consumption Tax Hikes

**Consumer Confidence Index**

Notes: 1. Month 0 is the month in which the consumption tax rate was raised – namely, April 2014 or October 2019.
2. There is a discontinuity in the data in April 2013 due to a change in the survey method.
Source: Cabinet Office.

**Overall Livelihood (Consumer Confidence Index)**

II. Price Developments

Chart 11

Consumer Prices

**Long-Term Developments**

**Recent Developments**

Note: In the left chart, figures exclude the effects of the consumption tax hikes. They incorporate the effects of the October 2019 tax hike and policies concerning the provision of free education.
Source: Ministry of Internal Affairs and Communications.
II. Price Developments

BOJ's Price Forecasts

CPI (All Items Less Fresh Food)

<January 2020 Outlook Report>

Note: Figures exclude the effects of the consumption tax hike in April 2014. Forecasts are the medians of the Policy Board members’ forecasts (point estimates).
Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

III. Japanification and Economic Growth

International Comparison of GDP

Nominal GDP

Nominal GDP per capita

Nominal GDP per working-age person

Real GDP

Real GDP per capita

Real GDP per working-age person

III. Japanification and Economic Growth

**Chart 14**

Okun's Law

*Relationship between Economic Growth Rate and Unemployment Rate*

Sources: Cabinet Office; Ministry of Internal Affairs and Communications.

III. Japanification and Economic Growth

**Chart 15**

Total Population and Gross Domestic Product of Ehime Prefecture

Source: Cabinet Office.
III. Japanification and Economic Growth

### Chart 16: Relationships between Population Growth and GDP/Inflation

**Population Growth and GDP Growth per Capita**

- **Notes:**
  1. Figures are those of 22 OECD member countries for which data from 1961 onward are available.
  2. In the right chart, figures for Israel, Mexico, and Turkey, of which inflation rates are above 10 percent, are not shown.

**Source:** World Bank.

### Chart 17: Potential Growth Rate

**Recent Developments**

- **Notes:**
  - In the right chart, figures are from the "White Paper on International Economy and Trade 1998."

**Sources:** Ministry of International Trade and Industry, Bank of Japan.
### III. Japanification and Economic Growth

#### Evidence of Slowdown in Physical Aging

#### Average Walking Speed

- **65-69**: CY 2007: 1.37, CY 2017: 1.38
- **70-74**: CY 2007: 1.30, CY 2017: 1.33
- **75-79**: CY 2007: 1.21

**Notes:**
2. In the left chart, average walking speed is the arithmetic average of men's and women's walking speeds.

**Sources:** National Center for Geriatrics and Gerontology; Ministry of Health, Labour and Welfare.

#### Average Number of Teeth

- **65-69**: CY 2005: 22, CY 2016: 20
- **70-74**: CY 2005: 18, CY 2016: 15
- **75-79**: CY 2005: 11

**Notes:**
1. Figures for Japan are the CPI (excluding the effects of the April 2014 consumption tax hike and incorporating the effects of the October 2019 tax hike and policies concerning the provision of free education); those for U.K. and Canada are the CPI; those for U.S. are the PCE deflator; and those for the euro area countries are the HICP.
2. The figure for the U.S. for 2019 is the January-November average.

**Sources:** Ministry of Internal Affairs and Communications; Haver.

### Conclusion

#### Price Developments in G7 Countries

**Notes:**
1. Figures for Japan are the CPI (excluding the effects of the April 2014 consumption tax hike and incorporating the effects of the October 2019 tax hike and policies concerning the provision of free education); those for U.K. and Canada are the CPI; those for U.S. are the PCE deflator; and those for the euro area countries are the HICP.
2. The figure for the U.S. for 2019 is the January-November average.

**Sources:** Ministry of Internal Affairs and Communications; Haver.