

Japan's Economy and Monetary Policy

Speech at a Meeting with Local Leaders in Iwate

July 28, 2022

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Introduction

I. Economic Developments

II. Price Developments

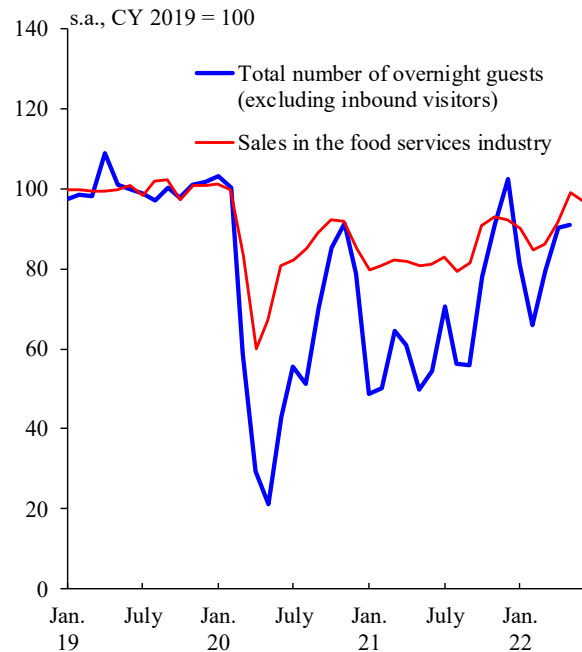
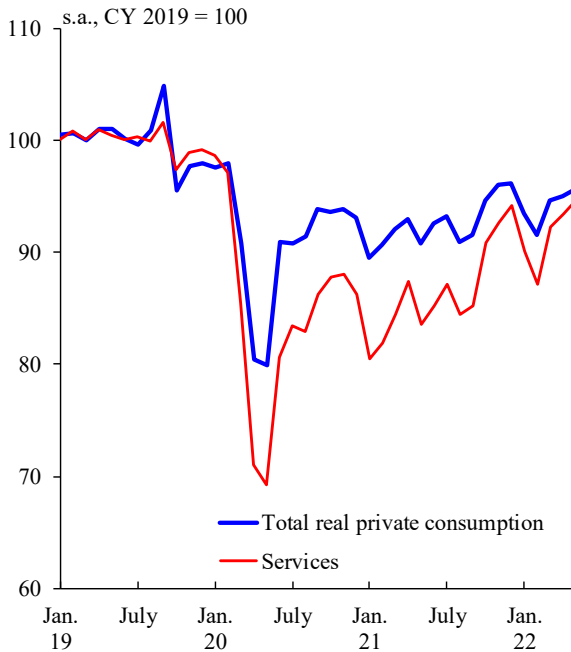
III. The Bank's Conduct of Monetary Policy

IV. Current Situation of and Outlook for Iwate
Prefecture's Economy

Private Consumption

Consumption Activity Index

Consumption of Services



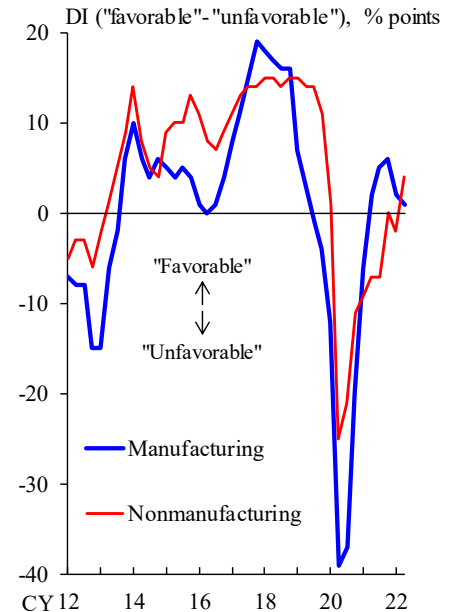
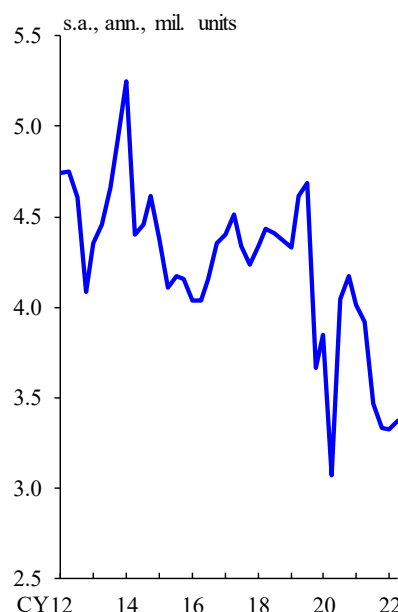
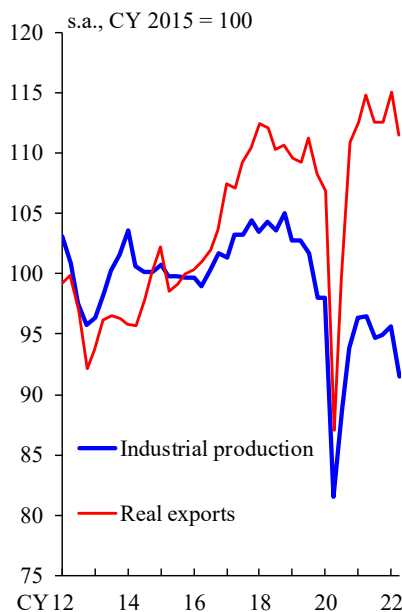
Note: In the left-hand chart, figures for total real private consumption are the real Consumption Activity Index (travel balance adjusted) based on staff calculations, which exclude inbound tourism consumption and include outbound tourism consumption.
Sources: Bank of Japan; Japan Tourism Agency; Japan Foodservice Association, "Market Trend Survey of the Food Services Industry."

Corporate Activity

Exports and Production

New Passenger Car Registrations

Business Sentiment

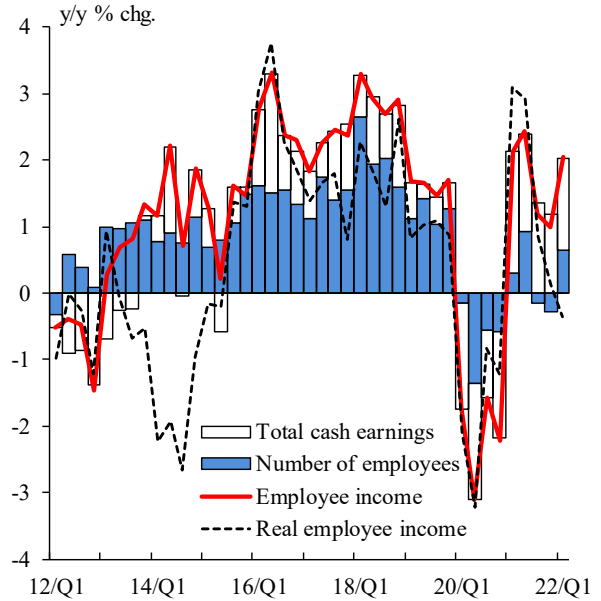
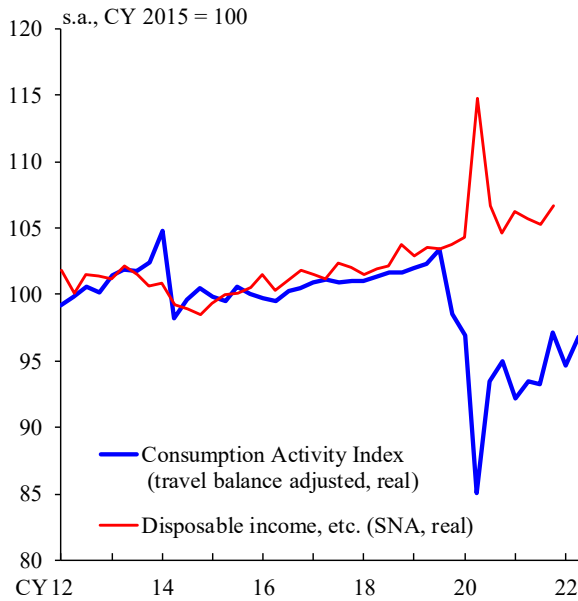


Notes: 1. In the left-hand chart, the figure for industrial production for 2022/Q2 is the April-May average.
2. In the middle chart, figures include small cars with engine sizes up to 660cc.
3. In the right-hand chart, figures are based on the business conditions DI in the *Tankan*. All enterprises.
Sources: Ministry of Economy, Trade and Industry; Bank of Japan; Japan Automobile Dealers Association; Japan Light Motor Vehicle and Motorcycle Association.

Pent-Up Demand and Labor Market Conditions

Private Consumption and Disposable Income

Employee Income



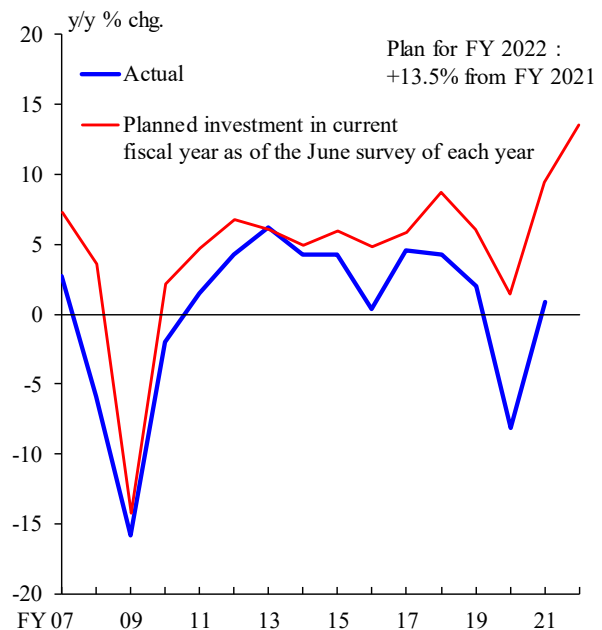
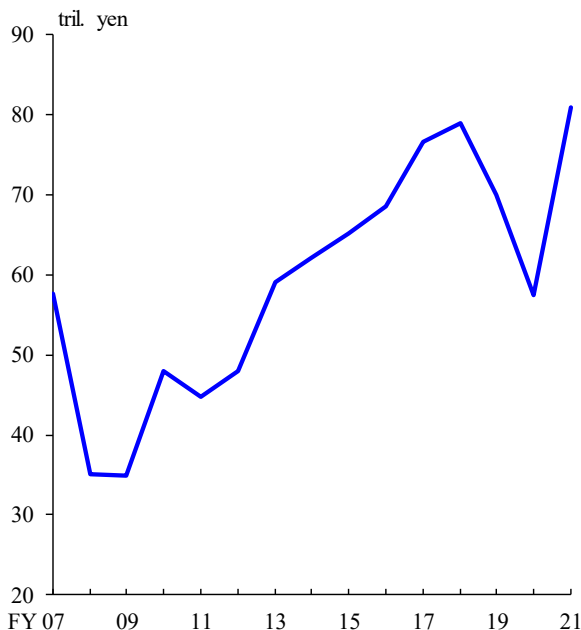
Notes: 1. In the left-hand chart, figures for the Consumption Activity Index (CAI) are based on staff calculations. The CAI figures (travel balance adjusted) exclude inbound tourism consumption and include outbound tourism consumption. The figure for 2022/Q2 is the April-May average. "Disposable income, etc." consists of disposable income and adjustment for the change in pension entitlements. Real values are obtained using the deflator of consumption of households.
2. In the right-hand chart, Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Employee income = Total cash earnings (*Monthly Labour Survey*) × Number of employees (*Labour Force Survey*). Figures from 2016/Q1 onward are based on continuing observations following the sample revisions of the *Monthly Labour Survey*. Figures for real employee income are based on staff calculations using the CPI (less imputed rent).

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

Corporate Profits and Business Fixed Investment

Current Profits

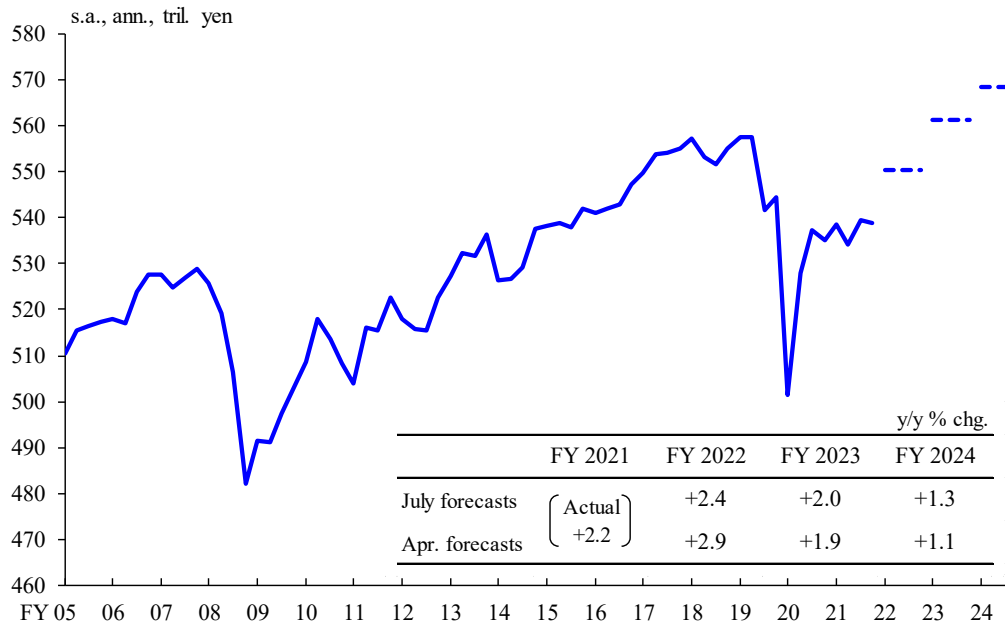
Planned and Actual Business Fixed Investment (Tankan)



Notes: 1. In the left-hand chart, figures are based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*. Excluding "finance and insurance." Figures from fiscal 2009 onward exclude pure holding companies.
2. In the right-hand chart, figures include software and R&D investments and exclude land purchasing expenses. R&D investment is not included before the March 2017 survey. The figures are for all industries including financial institutions.

Sources: Ministry of Finance; Bank of Japan.

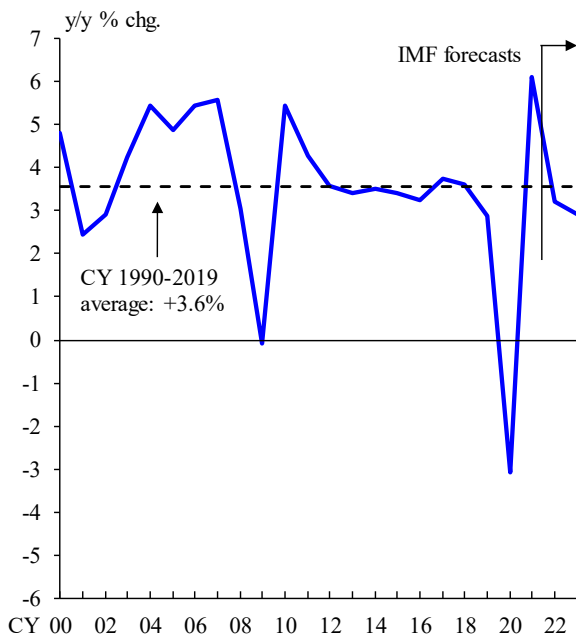
The Bank's Forecasts for Real GDP (July 2022 Outlook Report)



Note: The real GDP growth rates for fiscal 2022-2024 are the medians of the Policy Board members' forecasts. The values of real GDP for fiscal 2022 onward are calculated by multiplying the actual figure for fiscal 2021 by all successive projected growth rates for each year.
Sources: Cabinet Office; Bank of Japan.

Developments in the Overseas Economy (IMF's July 2022 WEO Update)

Global Growth Rate

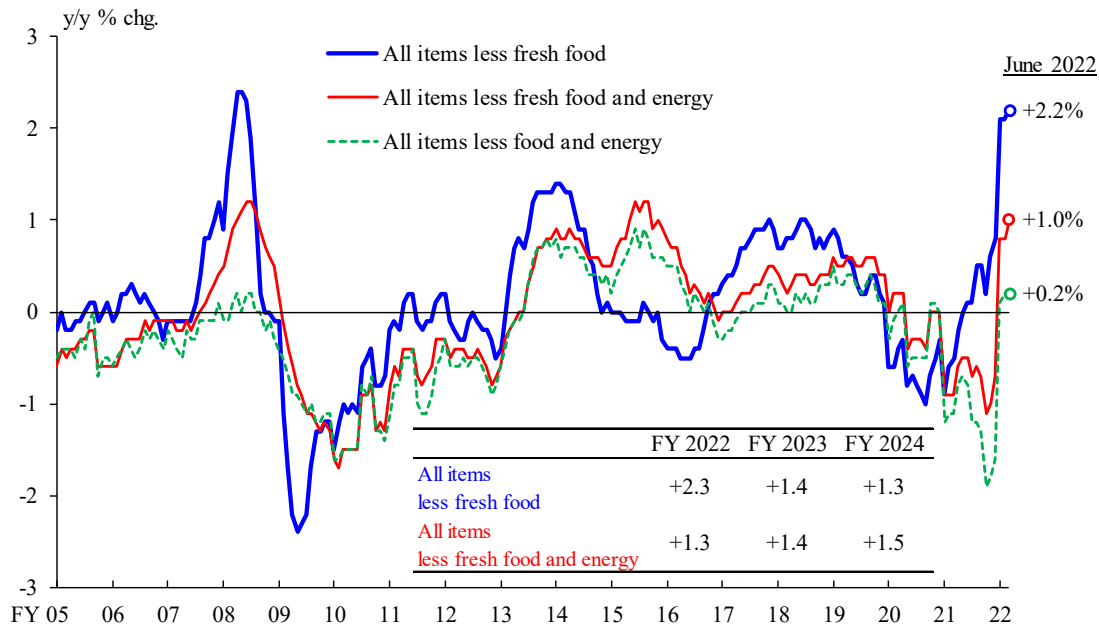


Major Economies' Growth Rates

| | y/y % chg., % points | | | |
|--|----------------------|---------|--------------------|--------------------|
| | CY 2020 | CY 2021 | CY 2022 [Forecast] | CY 2023 [Forecast] |
| World | -3.1 | 6.1 | 3.2 (-0.4) | 2.9 (-0.7) |
| Advanced economies | -4.5 | 5.2 | 2.5 (-0.8) | 1.4 (-1.0) |
| United States | -3.4 | 5.7 | 2.3 (-1.4) | 1.0 (-1.3) |
| Euro area | -6.3 | 5.4 | 2.6 (-0.2) | 1.2 (-1.1) |
| United Kingdom | -9.3 | 7.4 | 3.2 (-0.5) | 0.5 (-0.7) |
| Japan | -4.5 | 1.7 | 1.7 (-0.7) | 1.7 (-0.6) |
| Emerging market and developing economies | -2.0 | 6.8 | 3.6 (-0.2) | 3.9 (-0.5) |
| China | 2.2 | 8.1 | 3.3 (-1.1) | 4.6 (-0.5) |
| India | -6.6 | 8.7 | 7.4 (-0.8) | 6.1 (-0.8) |
| ASEAN-5 | -3.4 | 3.4 | 5.3 (0.0) | 5.1 (-0.8) |

Note: In the table, figures in brackets are the differences from the forecasts in the April 2022 *World Economic Outlook* (WEO). ASEAN-5 consists of Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.
Source: IMF.

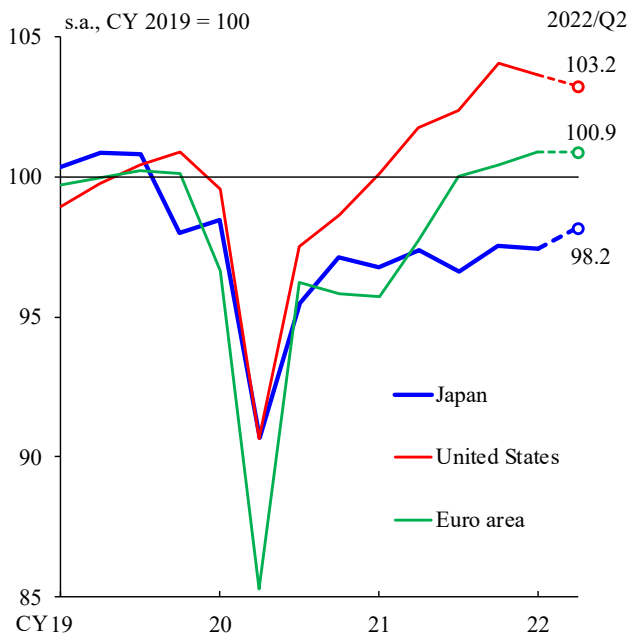
The Bank's Forecasts for the CPI (July 2022 Outlook Report)



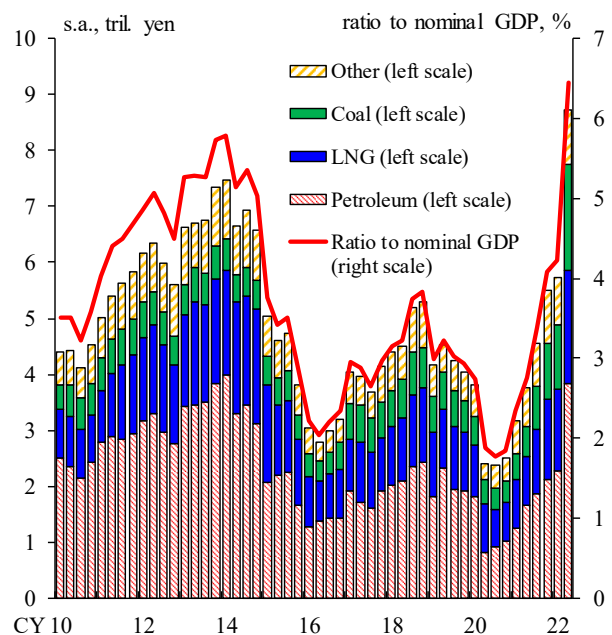
Note: The projected rates of increase in the CPI for fiscal 2022-2024 are the medians of the Policy Board members' forecasts. Figures exclude the effects of the consumption tax hikes. Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

Level of Economic Activity in Japan and Outflow of Income

Real GDP of Japan, the U.S., and the Euro Area



Import Values of Crude Oil, Etc.



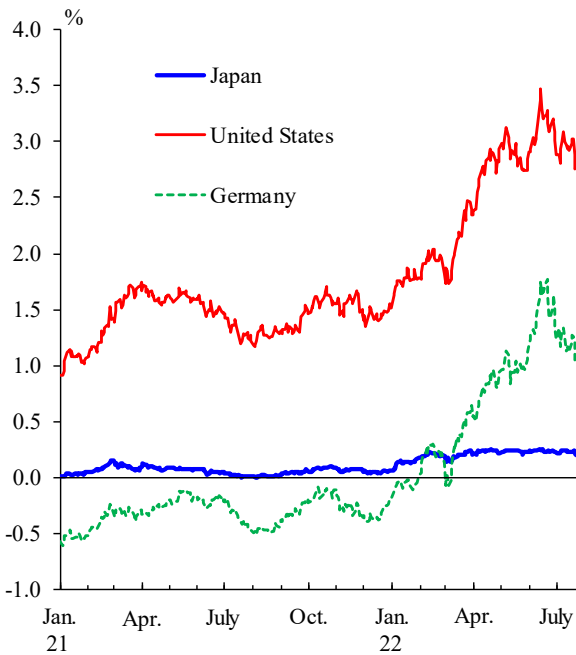
Notes: 1. In the left-hand chart, the figures for 2022/Q2 for Japan, the United States, and the euro area are calculated using the ESP Forecast of the Japan Center for Economic Research (survey period: June 30-July 7), GDPNow by the Atlanta Fed (as of July 19), and the Summer 2022 Economic Forecast by the European Commission (published on July 14), respectively.

2. In the right-hand chart, figures are the import values of mineral fuels. The ratio to nominal GDP for 2022/Q2 is obtained by using the nominal GDP for 2022/Q1.

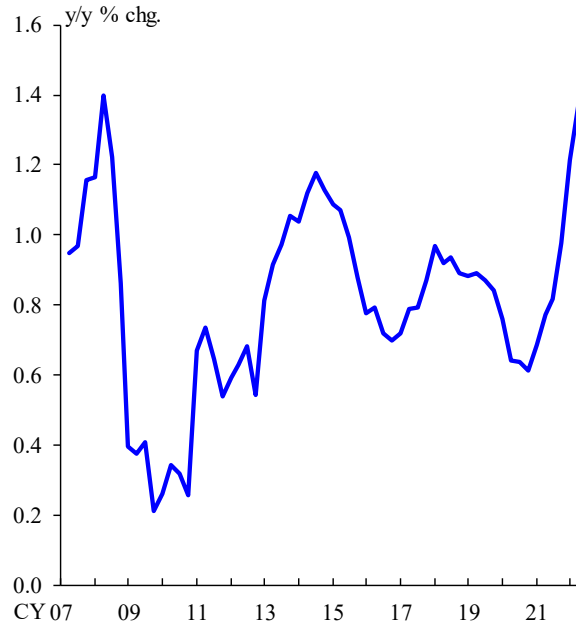
Sources: Cabinet Office; Haver; Japan Center for Economic Research; Atlanta Fed; European Commission; Ministry of Finance.

Real Interest Rates

Nominal Interest Rates



Synthesized Inflation Expectations Indicator



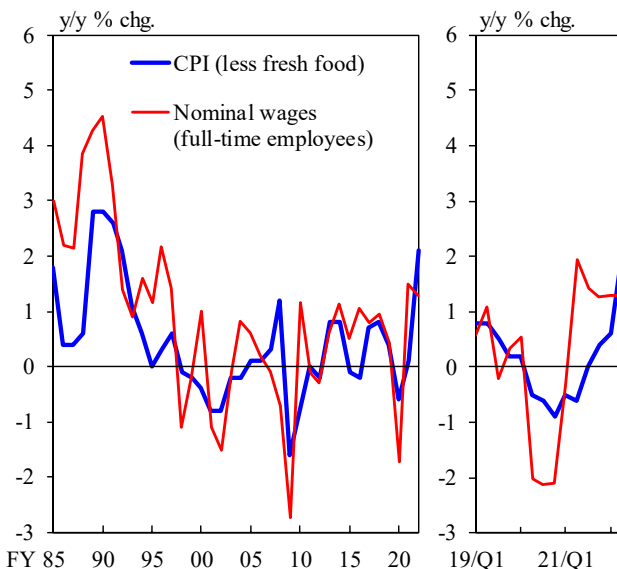
Note: In the right-hand chart, figures are obtained by synthesizing the inflation expectations of firms, households, and experts. Those inflation expectations are taken from the *Tankan* for firms, the *Opinion Survey on the General Public's Views and Behavior* for households, and the *QUICK Survey* for experts.
Sources: Bloomberg; Bank of Japan; QUICK, "QUICK Monthly Market Survey <Bonds>."

Wages and Prices

Wages and Prices

Annual

Quarterly



Base Pay Increases and Summer Bonuses

Revision of Wages
(Compiled by RENGO)

| | FY 2019 | FY 2020 | FY 2021 | FY 2022 |
|---|---------|---------|---------|---------|
| Rate of wage increase (including regular wages) | 2.1 | 1.9 | 1.8 | 2.1 |
| Base pay increase (groups that can be aggregated) | 0.6 | 0.5 | 0.6 | 0.6 |

Small firms: +0.7%

Bonuses (Survey for Large Firms)

| | y/y % chg. | | | | |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|
| | 2020 Summer | 2020 Winter | 2021 Summer | 2021 Winter | 2022 Summer |
| Japan Business Federation (Keidanren) | -2.2 | -9.0 | -8.3 | -5.2 | 13.8 |
| Nikkei Inc. | -5.4 | -8.6 | -2.9 | 0.8 | 10.5 |

Manufacturing : +11.8%
Nonmanufacturing: +6.7%

Note: In the left-hand chart, figures for nominal wages prior to fiscal 1994 include part-time employees. Those for fiscal 2016 onward are based on continuing observations following the sample revisions. Figures for the CPI exclude the effects of the consumption tax hikes from 1997. Figures for the CPI are those for 2022/Q2. The figure for nominal wages for 2022/Q2 is the April-May average.
Sources: Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare; Japanese Trade Union Confederation (RENGO); Japan Business Federation (Keidanren); Nikkei Inc.