

October 28, 2010

Bank of Japan

Outlook for Economic Activity and Prices (October 2010)

The Bank's View¹

I. Introduction

This October 2010 issue of the *Outlook for Economic Activity and Prices* (Outlook Report) presents the outlook for Japan's economy through fiscal 2012. Before going into detail on the outlook, the following points should be noted. First, the outlook for Japan's economy, reflecting economic and financial globalization, is considerably affected by developments in overseas economies and international financial markets. Second, an assessment of the financial environment is the key to determining the relationship between the outlook for economic activity as well as prices and the monetary policy. Therefore, this Outlook Report first provides some detailed explanation of the outlook for overseas economies and developments in international financial markets. It then summarizes the assessment of Japan's financial environment.

As for the outlook for economic activity and prices, the Outlook Report explains the scenario considered to be the most likely by the Bank of Japan, or its baseline scenario, focusing on the basic mechanisms of economic fluctuations. It then presents upside and downside risks associated with the outlook. In the current economic situation where uncertainty is high, these risks should be appropriately assessed. Lastly, the report describes the Bank's basic thinking on the conduct of monetary policy.

II. Overseas Economies and International Financial Markets

Overseas economies, which had plunged in the wake of the failure of Lehman Brothers in autumn 2008, leveled out around spring 2009 and recovered sharply from the second half of

¹ The text of "The Bank's View" was decided by the Policy Board at the Monetary Policy Meeting held on October 28, 2010.

2009. However, the pace of growth has been slowing somewhat since summer 2010, as inventory restocking carried out in the early phase of economic recovery has been running its course and the demand-boosting effects of fiscal policy measures have been waning. Looking at developments by region, while the U.S. economy continues to recover at a moderate pace, led in particular by exports, it has been on a slowing trend since around mid-2010 mainly due to the waning effects of fiscal stimulus measures amid a lack of momentum in private consumption and housing investment. Economic activity in Europe is recovering moderately on the whole, but there are some differences in the pace of recovery between some countries, including Germany, and peripheral countries. Emerging and commodity-exporting economies, led mainly by robust domestic demand, continue to grow at a relatively rapid pace, although it has started to slow somewhat partly due to the shifting away from accommodative monetary policies.

It is projected that overseas economies will grow at a slower pace for the time being, but the recovery trend itself will not be interrupted, and from 2011 the growth rate will start to increase again on the back of high growth in emerging and commodity-exporting economies. The growth rates of the global economy in 2010, and then in 2011 and 2012, are projected to surpass the average of the high growth rates recorded during the ten years preceding the financial crisis.² Looking at developments by region, emerging and commodity-exporting economies are likely to grow at a somewhat slower pace temporarily but maintain relatively high growth given that the virtuous circle of growth in production, income, and spending will be functioning amid continued robust domestic demand and capital inflows from overseas. Specifically, the Chinese economy is likely to continue decelerating for the time being partly due to the government's measures to restrain the increase in real estate transactions. However, the economy as a whole is expected to continue showing relatively high growth due to the continued uptrend in private consumption, housing investment, and investment in various infrastructures on the back of households' higher income levels and the progress in urbanization. Although growth in

² According to the projections for the global economy released by the International Monetary Fund in October 2010, world GDP is forecast to expand by 4.8 percent in 2010, mainly due to the high growth in the first half of the year, which was the recovery phase following the considerable plunge. The growth rates of the global economy are projected to be 4.2 percent in 2011 and 4.5 percent in 2012. The average growth rate during the ten years preceding the financial crisis -- from 1998 to 2007 -- is estimated at 4.0 percent.

their exports is likely to decelerate, economic conditions in the NIEs and ASEAN countries are likely to follow an expanding trend, led in particular by business fixed investment and private consumption, as capital inflows from other countries continue. Meanwhile, the growth rate of the U.S. economy is expected to start increasing again from 2011, as exports, mainly to emerging and commodity-exporting economies, will likely continue increasing, and private consumption and business fixed investment will likely continue to recover at a moderate pace amid a maintained accommodative monetary environment. However, the pace of economic improvement is likely to remain moderate compared with past economic recovery phases, with the impact of balance-sheet adjustments continuing. Economic activity in Europe is likely to continue to recover moderately as a whole, with the rise in exports gradually affecting domestic demand, albeit with some differences in the pace of recovery by country.

Meanwhile, in the international financial markets, global investors have become increasingly risk averse since spring 2010 as the sovereign debt problem in some European countries including Greece has become a focus of concern and uncertainty over the outlook for the global economy has heightened, especially for the United States, where a series of relatively weak economic indicators have been released. Consequently, credit spreads on corporate bonds mainly in the United States and Europe have widened temporarily since spring 2010, and stock prices in many countries including Japan have been unstable. In the foreign exchange markets, demand has increased for the yen, which is viewed as a relatively safe currency, and thus the yen has appreciated. Attention should continue to be paid to how developments in international financial markets on the back of global capital flows will affect economic activity in Japan and abroad while taking into account a change in investors' attitudes toward risks, amid a large difference in the pace of economic recovery between advanced economies and emerging and commodity-exporting economies.

III. Japan's Financial Environment

Financial conditions in Japan have continued to show signs of easing. In the money market, while the Bank is pursuing powerful monetary easing through, for example, the virtually zero interest rate policy, the overnight call rate has remained at extremely low levels, interest rates on term instruments have declined, and the yield curve has flattened further. Firms' funding costs have been declining to record-low levels as issuance rates of

CP and high- and medium-rated corporate bonds have been stable at low levels and lending rates have been on a declining trend. Firms have continued to view financial institutions' lending attitudes as improving. As for demand for funds, firms' demand for external funds has continued to be weak as their cash flow has increased with a recovery in profits. Therefore, the amount outstanding of funding in the private sector, such as bank lending, has been declining on a year-on-year basis. Firms' financial positions have continued to steadily show signs of improvement as a whole, although there are some differences between large firms and small and very small firms. As for the outlook, monetary easing effects will be strengthened with the recovery in corporate profits while Japan's financial system maintains its stability as a whole. In the future, as the effects of the Bank's powerful monetary easing policy spread further, an improvement in Japan's financial environment is likely to be encouraged, and this is expected to bolster the momentum toward self-sustaining recovery in domestic private demand.

IV. Baseline Scenario of the Outlook for Economic Activity and Prices in Japan

A. Outlook for Economic Activity

On the basis of the aforementioned developments in overseas economies and the financial environment at home and abroad, the following examines the scenario of the outlook for Japan's economy considered to be the most likely by the Bank; in other words, its baseline scenario.

With regard to the current state of Japan's economy, the economy still shows signs of a moderate recovery but the pace is slowing down as growth in exports and production has recently been decelerating. In the second half of fiscal 2010, the pace of recovery is likely to slow due to factors such as the slowdown in overseas economies and the ending of the boost from policy measures targeted at durable consumer goods, as well as the recent appreciation of the yen. Therefore, while the growth rate of Japan's economy in fiscal 2010 is expected to be at a level above the potential growth rate, it is likely to be lower than the projection in the July 2010 interim assessment.³ After entering fiscal 2011, albeit with

³ The downward deviation of the growth rate for fiscal 2010 from the projection in the July 2010 interim assessment is also largely attributable to statistical factors such as a smaller carry-over effect from fiscal 2009 on GDP growth for fiscal 2010 due to the downward revision of the GDP data for the second half of fiscal 2009.

some lingering effects of the yen's appreciation, the economy is expected to return to a moderate recovery path, given that exports are projected to continue increasing as the growth rate of overseas economies is likely to rise again, and that firms' sense of excessive capital stock and labor is likely to be dispelled gradually as corporate profits improve. In fiscal 2012, Japan's economy is expected to continue growing at a pace above its potential, as the transmission mechanism by which the strength in exports and production feeds through into income and spending will likely operate more effectively amid the continued relatively high growth in overseas economies, especially emerging and commodity-exporting economies.⁴

Somewhat detailed explanations of the outlook according to each of the corporate and household sectors are as follows.

Regarding the corporate sector, since the beginning of fiscal 2010, manufacturers' production has been increasing and their profits have been recovering rapidly mainly due to the rise in exports and the effects of various demand-boosting policy measures targeted at durable consumer goods. However, growth in exports and production has recently been decelerating mainly reflecting the shifting away from accommodative monetary policies in emerging and commodity-exporting economies and inventory adjustments in IT-related goods.⁵ Through the second half of fiscal 2010, the pace of growth in exports is expected to remain only moderate due to the aforementioned developments in overseas economies and the effects of earlier appreciation of the yen. In addition, the expected decline in demand following the boost from the extremely hot summer and the expiration of subsidies

⁴ Japan's potential growth rate during the projection period is estimated to be "around 0.5 percent" if a certain method based on the production function approach is used. However, the estimate of the potential growth rate is subject to a considerable margin of error, given that the estimation largely depends on the specific estimation methods employed and that it is difficult to recognize the final figures of important variables such as capital stock and labor input until *ex post* data are accumulated.

⁵ As a result of the revision to seasonal adjustments carried out in April 2010, it is likely that a portion of the significant drops in production in the October-December quarter of 2008 and the January-March quarter of 2009 is recognized as seasonal rather than actual movement. Such a seasonal adjustment method would push up future growth rates for the October-December and January-March quarters, whereas it would push down those for the April-June and July-September quarters. The assessment presented here on the future trend of production developments is in actual terms and excludes the effects of the seasonal adjustment method.

for purchasing energy-efficient cars is likely to cause a temporary decline in production. From fiscal 2011, as the growth rate of overseas economies starts to increase again, it is expected that exports will regain momentum, production will return to an increasing trend, and corporate profits will continue to improve. Against this background, firms' sense of excessive capital stock is likely to be dispelled gradually and firms' funding conditions are likely to continue improving partly due to the spread of powerful monetary easing; consequently, business fixed investment is expected to generally continue to pick up, such as in terms of the anticipated increase in replacement investment that had been restrained in recent years.⁶ As for the nonmanufacturing firms, the effects of the improvement in manufacturers' business performance have started to spill over gradually, and therefore corporate profits and business fixed investment in these firms are expected to pick up moderately.

As for the household sector, the unemployment rate has been on a declining trend with some fluctuations since summer 2009, but has remained high compared with the past average. On the other hand, the number of employees has begun to see a halt to declines on a year-on-year basis. As for wages, overtime payments have continued to rise on a year-on-year basis and special payments, reflecting an improvement in business performance, have surpassed the previous year's level. Against the background of such employment and income situation, private consumption has been picking up. In the first half of fiscal 2010, the effects of various policy measures targeted at durable consumer goods and of the extremely hot summer boosted household spending. In the second half of fiscal 2010, as those effects will wane, private consumption is likely to weaken temporarily. From fiscal 2011, the employment and income situation is expected to follow an improving trend, together with the improvement in corporate profits and recovery in production. Consequently, it is likely that private consumption will pick up again and the momentum for its self-sustaining recovery will gradually build toward the latter half of the projection period. Meanwhile, housing investment, which has recently stopped declining, is projected to recover moderately on the back of the improvement in the employment and income situation as well as the decline in borrowing rates.

⁶ Firms' overseas business fixed investment is expected to recover faster than domestic business fixed investment, as Japanese firms are likely to further accelerate their establishment of overseas bases.

B. Outlook for Prices

Based on the above projection for economic activity, the report examines the outlook for price developments. The consumer price index (CPI) for all items excluding fresh food is currently declining on a year-on-year basis due to the substantial slack in the economy as a whole, but the pace of decline has been slowing.⁷

The outlook for the environment surrounding prices can be summarized as follows. Resource utilization of labor and production capacity, which reflects the aggregate supply and demand balance of goods and services, is projected to continue improving gradually as the economy follows a moderate recovery trend. Judging, for example, from the results of surveys targeted at households and firms and at economists, no significant change in medium- to long-term inflation expectations has been observed so far, and such expectations are assumed to remain stable throughout the projection period. The economists' expected rate of inflation in the medium to long term has been stable at around 1.0 percent in recent years. Commodity prices are assumed to increase moderately on the back of the continued relatively strong growth in emerging and commodity-exporting economies. Meanwhile, the recent appreciation of the yen, for the time being, is likely to exert downward pressure on domestic prices through import prices.

As for the outlook for prices on the basis of the aforementioned environment, the domestic corporate goods price index (CGPI) is expected to continue rising moderately on a year-on-year basis throughout the projection period due mainly to the improvement in the aggregate supply and demand balance and to developments in commodity prices, despite being influenced by the yen's appreciation. Under the assumption that medium- to long-term inflation expectations remain stable, the year-on-year pace of decline in the CPI is expected to continue slowing as the aggregate supply and demand balance improves. However, it will take considerable time for the supply and demand balance to improve because the drop in demand after the financial crisis was rather considerable and the pace of economic recovery has been moderate. Therefore, the slowing pace of decline in the CPI

⁷ To assess the trend change in prices, the forecast for the CPI for fiscal 2010 excludes the effects of subsidies for high school tuition, a factor that will significantly push down the year-on-year rate of change in the index for twelve months.

is likely to remain moderate on a year-on-year basis, and the timing of the year-on-year rate of change in the CPI entering positive territory is likely to be sometime in fiscal 2011. Thereafter, the rate of increase is expected to start rising through fiscal 2012.⁸

V. Upside and Downside Risks

A. Risks to Economic Activity

The aforementioned outlook is the scenario the Bank considers to be the most likely; in other words, its baseline scenario. The following upside and downside risks concerning the outlook for economic activity warrant attention.

The first risk concerns developments in advanced economies. In advanced economies including the United States, a situation has been continuing in which there is heightened uncertainty about the future. As Japan's experience after the bursting of the bubble economy indicates, in an economy that is burdened by balance-sheet adjustments, such as the United States, the virtuous circle of growth in production, income, and spending does not operate easily, and it is likely that it will continue to be more difficult for the economy to grow but easier for it to deteriorate until balance-sheet adjustments are completed. In many advanced economies, including Japan, the amount outstanding of public debt has increased considerably due to the implementation of vigorous fiscal policies. The implementation of fiscal consolidation measures, which will proceed further, particularly in Europe and the United States, might exert greater-than-expected downward pressure on the individual economies and the global economy depending on the size and speed of implementation of such measures. On the other hand, if the market evaluates efforts toward fiscal consolidation as insufficient, this could have adverse effects on economic activity through a rise in long-term interest rates and a decline in market sentiment. If the self-sustaining recovery in private domestic demand gains momentum, maintaining an accommodative financial environment longer than necessary could cause large fluctuations in economic activity and prices.

⁸ This outlook for inflation is predicated on the 2005-base CPI. The statistics authority has announced that the base year for the CPI is scheduled to be changed to 2010 in August 2011, and year-on-year figures as far back as January 2011 are scheduled to be revised retroactively. This rebasing is likely to cause the year-on-year rate of increase in the CPI to be revised downward.

The second risk concerns developments in emerging and commodity-exporting economies. These economies are likely to somewhat slow down temporarily but maintain relatively high growth led by domestic demand. In this situation, the continued large-scale monetary easing in advanced economies and the projection that it will be protracted might accelerate capital inflows to emerging and commodity-exporting economies. If this further boosts economic conditions in these economies, Japan's economy could realize stronger-than-expected growth through the increase in exports to these economies. On the other hand, if economic and financial activity in emerging and commodity-exporting economies becomes excessive, there are risks that overheating of the economy and an ensuing sharp unwinding might lead to large fluctuations in commodity and asset prices, as well as in economic activity. Many emerging and commodity-exporting economies have been shifting away from accommodative monetary policies. While this could present a downside risk to these economies in the short term, it could have positive effects on the global economy, including Japan's economy, from the long-term perspective in terms of the sustainability of economic expansion.

The third risk concerns developments in business and household sentiment. This risk partly overlaps with the two risks described above. In the current situation of high uncertainty about economic and financial conditions, business and household sentiment might change both upward and downward, which could in turn affect economic activity. For example, amid the aforementioned downside risk, if uncertainty about the outlook for the global economy heightens further, global investors' risk aversion might intensify further. Consequently, if the foreign exchange and stock markets become unstable, Japan's economy might become weaker than expected through the deterioration in business and household sentiment. On the other hand, if accommodative monetary policies in advanced economies reduce uncertainty about the outlook for the economy and lead to stability in financial markets, Japan's economy could grow more than expected through the improvement in business and household sentiment.

The fourth risk concerns firms' medium- to long-term growth expectations. Recently, in order to capture demand for infrastructure and consumption in emerging and commodity-exporting economies, many firms have been working on developing new products and expanding their international sales network. On this point, there have been

some moves toward reestablishment of the business structure from the global perspective by taking advantage of the yen's appreciation to purchase overseas firms. If such moves accelerate, there is a possibility that firms' medium- to long-term growth expectations will rise and economic activity, particularly business fixed investment and exports, will become stronger than projected. On the other hand, if the efforts to increase the productivity of the economy as a whole are delayed and the sluggish trend in firms' growth expectations continues, there is a risk that business fixed investment in Japan could be restrained and private consumption, through a decline in households' expectations for income growth, could decrease more than expected.

B. Risks to Prices

There is also uncertainty regarding the outlook for price developments that could cause this to deviate either upward or downward from the projection. To begin with, if any of the aforementioned upside and downside risks affecting economic activity materialize, prices might be affected accordingly. There are also risks specific to prices, as follows. The first concerns firms' and households' medium- to long-term inflation expectations. While resource utilization of labor and production capacity is likely to recover in Japan, the pace is expected to remain moderate. In these circumstances, should firms and households expect a continued decline in prices, the decline in actual prices, together with wages, might accelerate.

The second risk concerns the high uncertainty in gauging the aggregate supply and demand balance and its impact on prices. When an economy experiences substantial fluctuations accompanied by structural changes in demand, as seen in the economy after the recent global financial crisis, the economy's actual supply capacity could be declining owing to the economic depreciation of existing capital stock. As a result, there is a risk of overestimating the downward pressure on prices. Moreover, there is high uncertainty regarding the degree and speed of how changes in the supply and demand balance affect prices, and this should be considered with a certain margin of error.

The third risk concerns developments in import prices. Considerable uncertainty surrounds developments in prices of primary commodities such as crude oil, leaving room for movement in either direction. In particular, depending on developments in emerging

economies for which energy efficiency is lower than in advanced economies, and on capital inflows to commodity markets on the back of accommodative monetary conditions in advanced economies, primary commodity prices might see large fluctuations both upward and downward. Fluctuations in foreign exchange rates can also affect consumer prices to a certain extent, not only by causing swings in economic activity but also through changes in import prices.

VI. Conduct of Monetary Policy

The Bank assesses the economic and price situation from two perspectives and then outlines its thinking on the future conduct of monetary policy, taking into account the "understanding of medium- to long-term price stability" (hereafter "understanding") -- that is, the level of inflation that each Policy Board member understands, when conducting monetary policy, as being consistent with price stability over the medium to long term.^{9,10}

The first perspective involves assessing the baseline scenario of the outlook for economic activity and prices that is considered to be the most likely through fiscal 2012. As noted earlier, Japan's economy is likely to return to a moderate recovery path after a temporary slowdown in the pace of growth. As for prices, the year-on-year rate of decline in the CPI is expected to continue slowing. Given that the pace of improvement in the aggregate supply and demand balance is likely to be moderate, the timing of the year-on-year rate of change in the CPI entering positive territory is likely to be sometime in fiscal 2011, and thereafter the rate of increase will rise through fiscal 2012. In comprehensively assessing the outlook for economic activity and prices described above, Japan's economy is expected to continue making steady progress toward sustainable growth with price stability, although some more time is needed.

The second perspective assesses the risks considered most relevant to the conduct of

⁹ The current "understanding" shows that each Policy Board member's "understanding" falls in a positive range of 2 percent or lower, and the midpoints of most Policy Board members' "understanding" are around 1 percent.

¹⁰ The Bank has made clear that it will maintain the virtually zero interest rate policy until it judges, on the basis of the "understanding," that price stability is in sight. The continuation of the virtually zero interest rate policy is subject to the condition that "no problem will be identified in examining risk factors, including the accumulation of financial imbalances."

monetary policy, including risks that have a longer time horizon than the first perspective. In the area of economic activity, there are some upside risks such as faster growth in emerging and commodity-exporting economies. However, amid continued heightened uncertainty about the future, especially for the U.S. economy, attention should also be paid to downside risks to Japan's economy. Regarding the outlook for prices, there is a possibility that inflation would rise more than expected due to an increase in commodity prices brought about by high growth rates in emerging and commodity-exporting economies, while there is also a risk that the rate of inflation might fall due, for example, to a decline in medium- to long-term inflation expectations.

Based on the examination from the two perspectives described above, the Bank will continue to consistently make contributions as the central bank so that Japan's economy will overcome deflation and return to a sustainable growth path with price stability, by implementing the following three measures.

First, the Bank will maintain the virtually zero interest rate policy until it judges, on the basis of the "understanding," that price stability is in sight. It will also encourage the decline in longer-term interest rates and various risk premiums by establishing and utilizing the Asset Purchase Program. Through such "comprehensive monetary easing," the Bank will further enhance monetary easing. Second, it will continue to make determined efforts to ensure financial market stability by utilizing various funds-supplying operations. And third, the Bank will support positive efforts made by financial institutions and firms through the "fund-provisioning measure to support strengthening the foundations for economic growth." It will also contribute toward improving financial markets that suit the purpose of strengthening the foundations for economic growth. The Bank will continue to carefully examine the outlook for economic activity and prices, and take policy actions in an appropriate manner as the central bank.

This Outlook Report has explained the outlook for the economy with a focus on developments on the demand side over the period through fiscal 2012. It should be noted that an analysis from the supply side on the basis of a medium- to long-term perspective is also necessary. In Japan, the medium- to long-term factors and the structural factors such as the trend decline in the economic growth rate, low birth rate, and further population

aging have a large impact on the economy, and the protracted decline in demand and deflation are a manifestation of these fundamental problems. Vigorous activity by firms in the private sector, including financial institutions, based on entrepreneurship is of greatest importance to increasing the productivity of Japan's economy and raising growth potential. In doing so, it is essential for the government to make an effort to create an environment in which market vitality can be brought into full play. It is strongly expected that efforts made by private economic entities and the government in combination will help pave the way for steady progress toward raising growth potential. In view of such efforts, the Bank will continue to make contributions as the central bank so that the very accommodative monetary policy will be fully effective as a tool for advancing Japan's economy.

(Appendix 1)

Forecasts of the Majority of Policy Board Members

y/y % chg.

	Real GDP	Domestic CGPI	CPI (excluding fresh food)
Fiscal 2010	+2.0 to +2.3 [+2.1]	+0.7 to +0.9 [+0.9]	-0.5 to -0.3 [-0.4]
Forecasts made in July 2010	+2.5 to +2.7 [+2.6]	+1.2 to +1.3 [+1.2]	-0.5 to -0.2 [-0.4]
Fiscal 2011	+1.5 to +1.9 [+1.8]	+0.4 to +0.7 [+0.5]	0.0 to +0.3 [+0.1]
Forecasts made in July 2010	+1.8 to +2.1 [+1.9]	+0.5 to +0.9 [+0.8]	0.0 to +0.2 [+0.1]
Fiscal 2012	+2.0 to +2.4 [+2.1]	+0.3 to +0.8 [+0.6]	+0.2 to +0.8 [+0.6]

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

- The forecasts of the majority of the Policy Board members are constructed as follows: each Policy Board member's forecast takes the form of a point estimate, namely, the figure to which he or she attaches the highest probability of realization. These forecasts are then shown as a range, with the highest figure and the lowest figure excluded. The range does not indicate the forecast errors.
- Individual Policy Board members make their forecasts with reference to the view of market participants regarding the future course of the policy interest rate -- a view that is incorporated in market interest rates.
- The forecast for the CPI for fiscal 2010 excludes the effects of subsidies for high school tuition, a factor that will significantly push down the year-on-year rate of change in the index for twelve months. This measure is estimated to push down the CPI (excluding fresh food) by about 0.5 percentage points.
- The range shown below includes the forecasts of all Policy Board members.

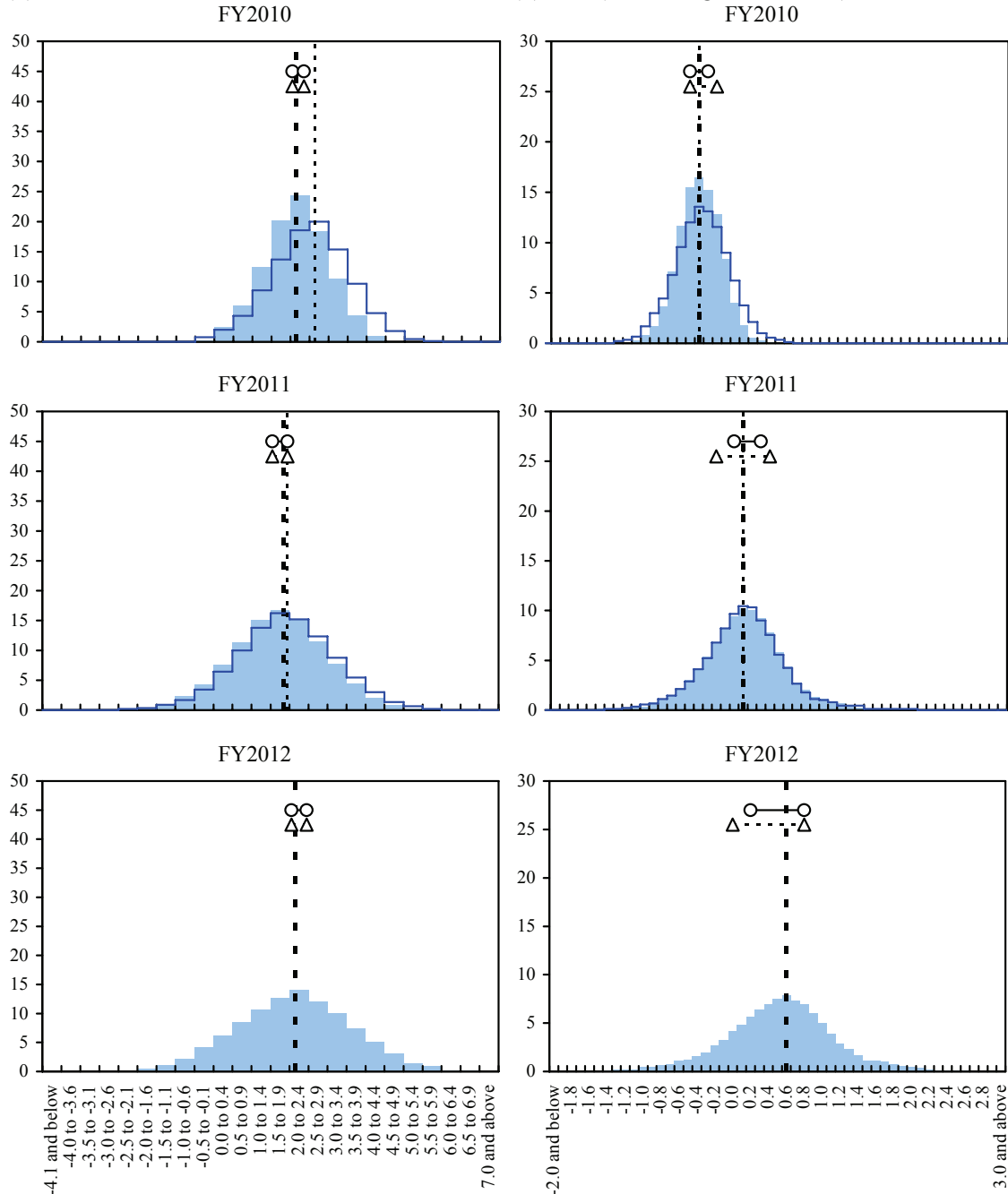
y/y % chg.

	Real GDP	Domestic CGPI	CPI (excluding fresh food)
Fiscal 2010	+2.0 to +2.3	+0.5 to +0.9	-0.5 to -0.2
Forecasts made in July 2010	+2.2 to +2.7	+1.0 to +1.4	-0.5 to -0.2
Fiscal 2011	+1.5 to +1.9	+0.4 to +1.0	-0.2 to +0.4
Forecasts made in July 2010	+1.8 to +2.1	+0.5 to +1.0	-0.1 to +0.3
Fiscal 2012	+2.0 to +2.4	+0.3 to +1.0	0.0 to +0.8

Risk Balance Charts

(1) Real GDP

(2) CPI (Excluding Fresh Food)



- Notes: 1. Vertical axes in the charts represent probability (%), while horizontal axes represent the year-on-year percentage changes in the respective indicators. Bar charts represent the probability distributions in October 2010, and solid lines represent those in July 2010.
2. Vertical dashed heavy lines indicate the median of the Policy Board members' forecasts (point estimates).
○—○ indicates the range of the forecasts of the majority of Policy Board members. △—△ indicates the range of the forecasts of all Policy Board members.
3. Vertical dashed thin lines indicate the median of the Policy Board members' forecasts (point estimates) in July 2010.
4. For the process of compilation of the Risk Balance Charts, see the box on page 9 of the April 2008 *Outlook for Economic Activity and Prices*.