



Economic Activity, Prices, and Monetary Policy in Japan

Speech at a Meeting with Local Leaders in Akita

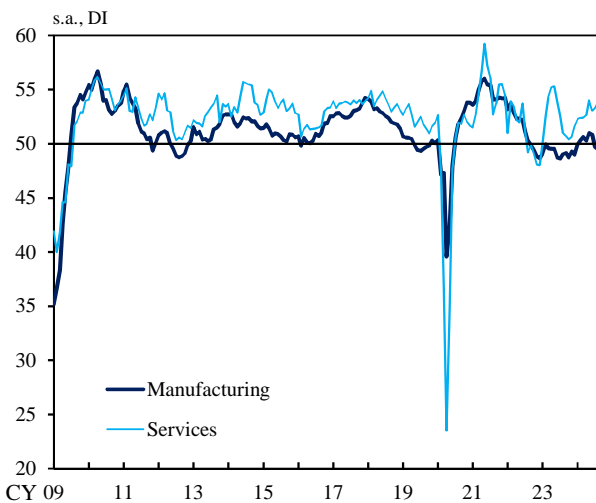
September 11, 2024

NAKAGAWA Junko
Member of the Policy Board
Bank of Japan

Chart 1

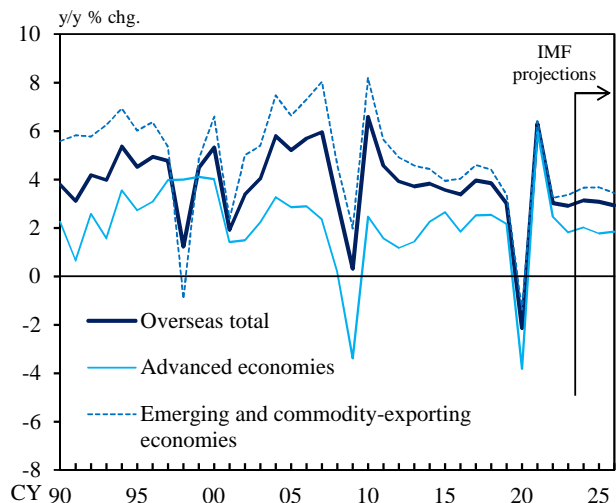
Overseas Economies

Global PMI



Note: Figures for manufacturing are the J.P.Morgan Global Manufacturing PMI.
 Figures for services are the J.P.Morgan Global Services PMI Business Activity Index.
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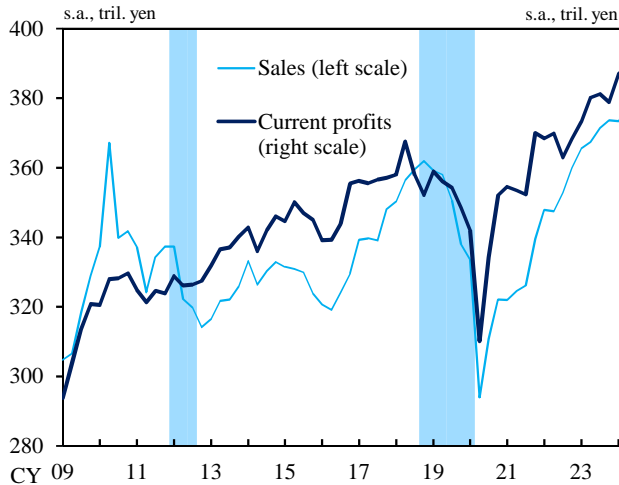
Outlook



Note: Figures are the weighted averages of real GDP growth rates using countries' share in Japan's exports as weights. The real GDP growth rates are compiled by the IMF, and the rates from 2024 onward are its projections in the April 2024 *World Economic Outlook* (WEO) and the July 2024 *WEO Update*.
 Figures for advanced economies are those for the United States, the euro area, and the United Kingdom.
 Figures for emerging and commodity-exporting economies are those for the rest of the world.
 Sources: IMF; Ministry of Finance.

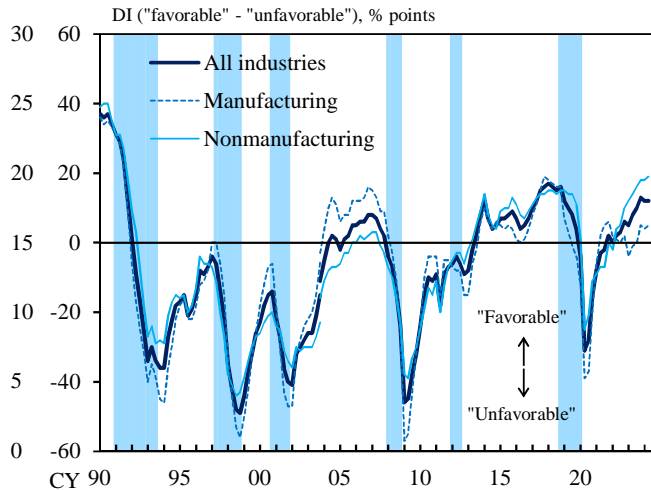
Corporate Sector in Japan

Corporate Profits



Notes: 1. Based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*. Excluding the finance and insurance industries.
 2. Figures from 2009/Q2 onward exclude pure holding companies.
 3. Shaded areas denote recession periods.
 Source: Ministry of Finance.

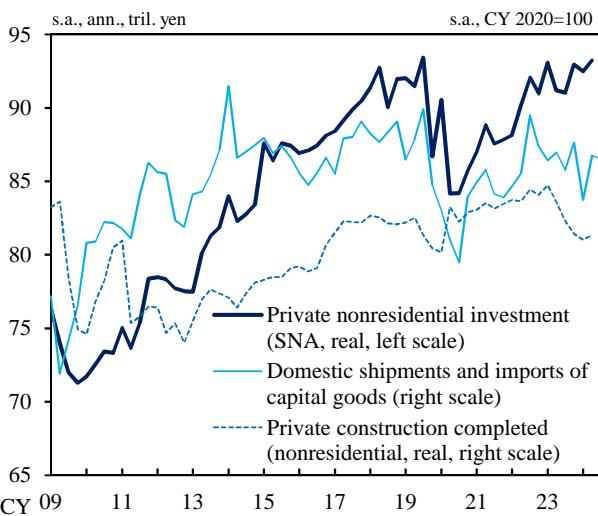
Business Conditions



Notes: 1. Based on the *Tankan*. All enterprises. There is a discontinuity in the data for December 2003 due to a change in the survey framework.
 2. Shaded areas denote recession periods.
 Source: Bank of Japan.

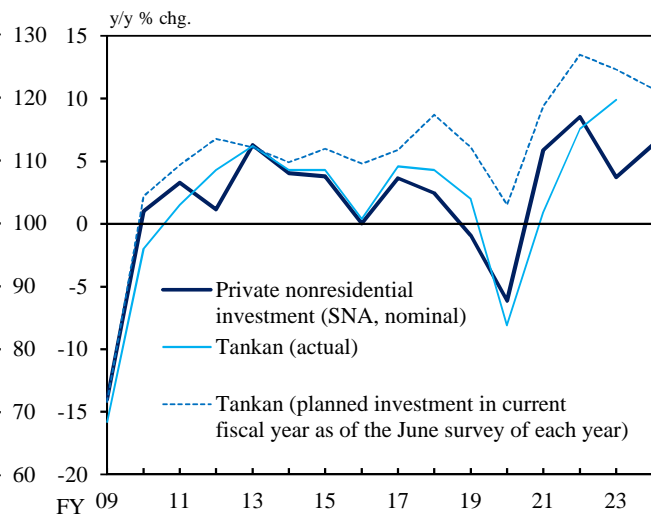
Corporate Sector in Japan

Coincident Indicators of Business Fixed Investment



Notes: 1. The figure for domestic shipments and imports of capital goods for 2024/Q3 is that for July.
 2. Figures for real private construction completed are based on Bank staff calculations using the construction cost deflators.
 Sources: Cabinet Office; Ministry of Economy, Trade and Industry; Ministry of Land, Infrastructure, Transport and Tourism.

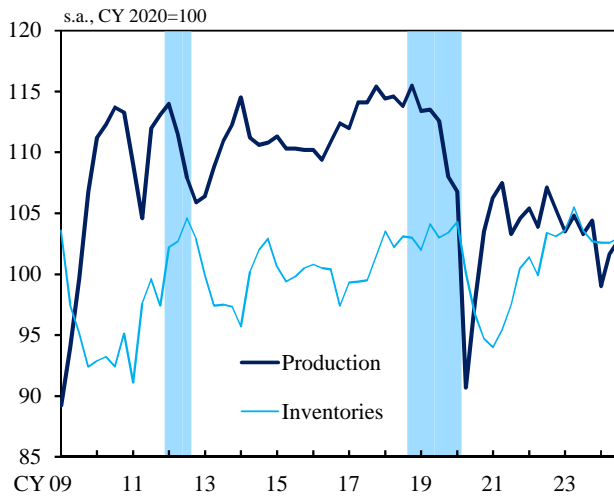
Planned and Actual Business Fixed Investment



Notes: 1. The *Tankan* figures include investments in software and research and development (R&D) but exclude land purchasing expenses. R&D investment is not included before the March 2017 survey. The figures are for all industries including financial institutions.
 2. The figure for private nonresidential investment for fiscal 2024 is that for 2024/Q2.
 Sources: Cabinet Office; Bank of Japan.

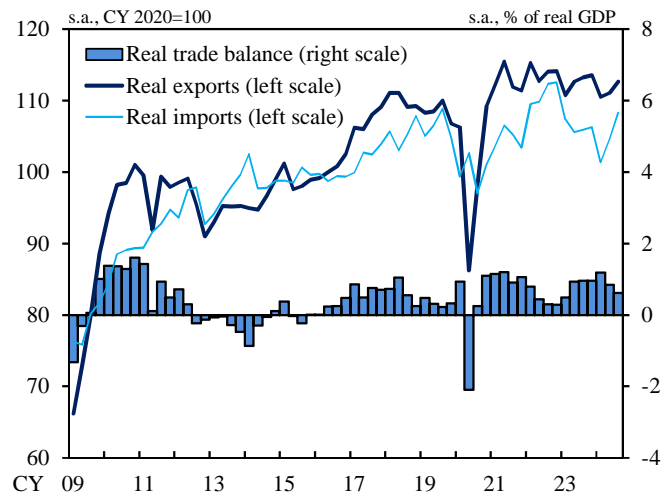
Corporate Sector in Japan

Industrial Production



Notes: 1. Shaded areas denote recession periods.
2. Figures for 2024/Q3 are those for July.
Source: Ministry of Economy, Trade and Industry.

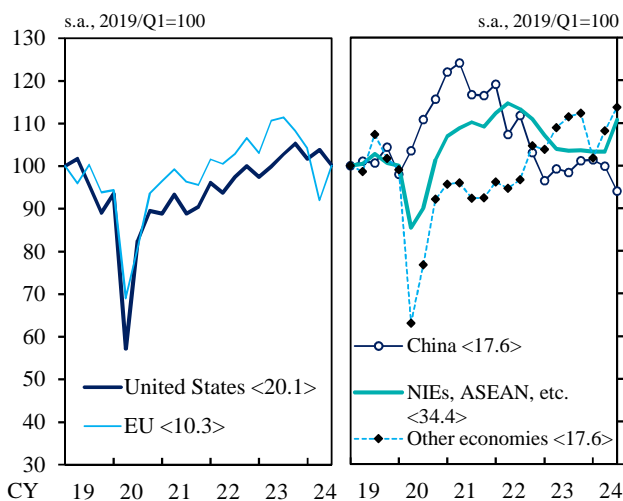
Real Exports and Imports



Note: Based on Bank staff calculations. Figures for 2024/Q3 are those for July.
Sources: Cabinet Office; Ministry of Finance; Bank of Japan.

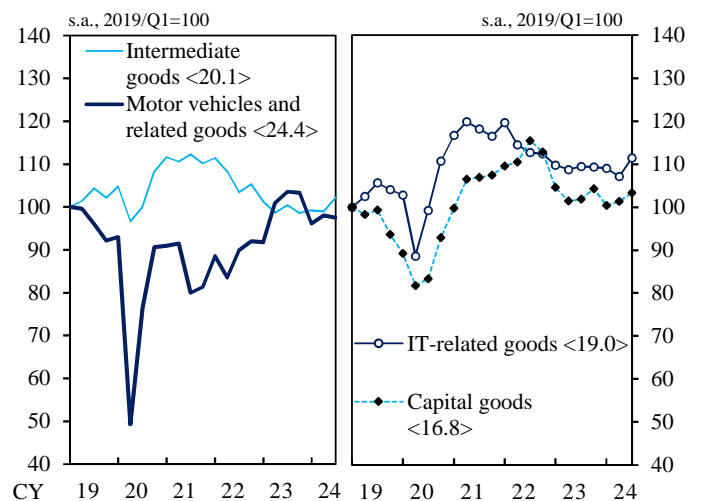
Corporate Sector in Japan

Real Exports by Region



Notes: 1. Based on Bank staff calculations. Figures in angular brackets show the share of each country or region in Japan's total exports in 2023. Figures for 2024/Q3 are those for July.
2. Figures for the EU exclude those for the United Kingdom for the entire period.
Sources: Ministry of Finance; Bank of Japan.

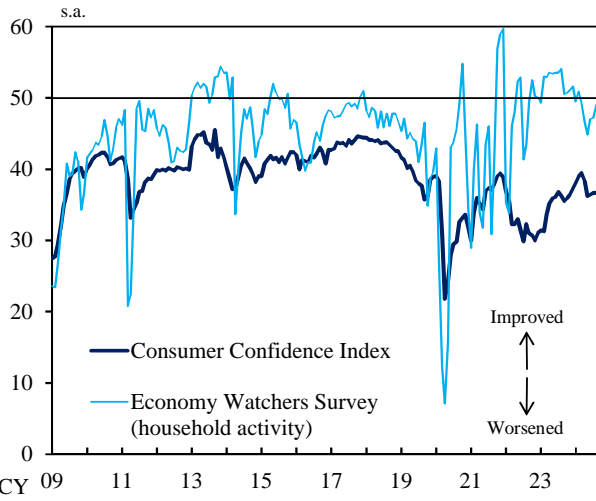
Real Exports by Type of Goods



Note: Based on Bank staff calculations. Figures in angular brackets show the share of each type of goods in Japan's total exports in 2023. Figures for 2024/Q3 are those for July.
Sources: Ministry of Finance; Bank of Japan.

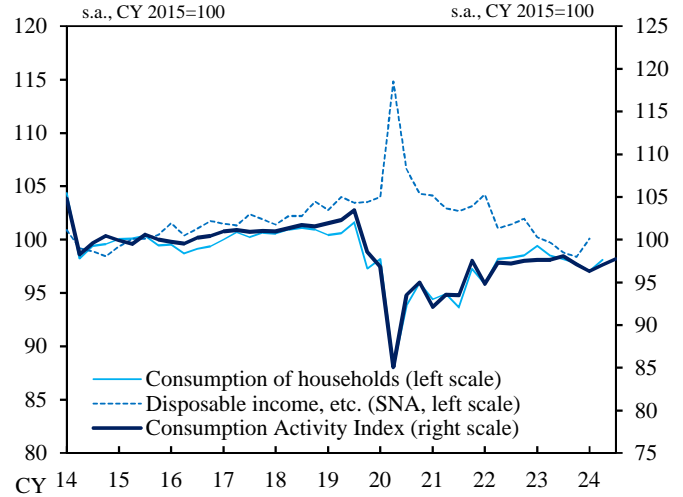
Private Consumption in Japan

Confidence Indicators



Note: Figures for the *Economy Watchers Survey* are those for the current economic conditions DI.
Source: Cabinet Office.

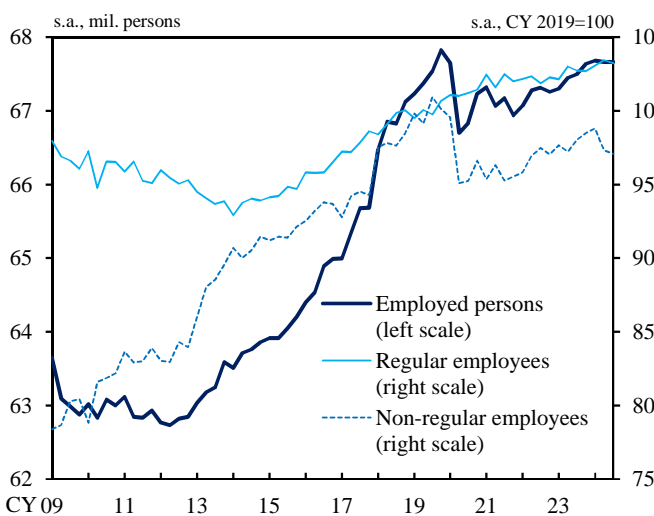
Real Private Consumption



Notes: 1. Figures for the Consumption Activity Index (CAI) are based on Bank staff calculations. The CAI figures are travel balance adjusted; i.e., they exclude inbound tourism consumption and include outbound tourism consumption. The figure for 2024/Q3 is that for July.
2. Figures for consumption of households exclude imputed rent.
3. "Disposable income, etc." consists of disposable income and adjustment for the change in pension entitlements, and real values are obtained using the deflator of consumption of households.
Sources: Cabinet Office; Bank of Japan, etc.

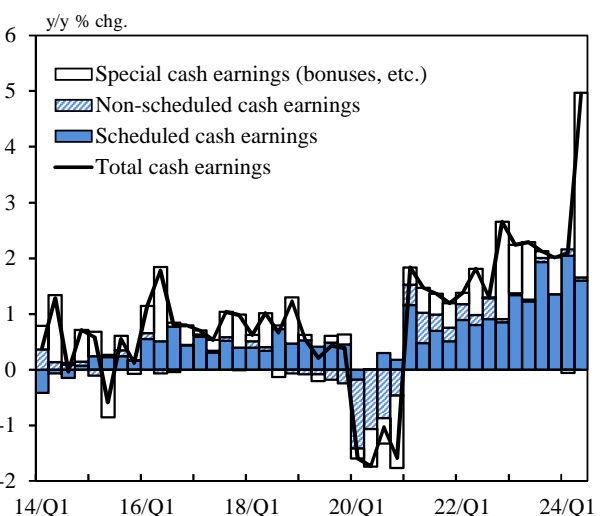
Employment and Income Situation in Japan

Number of Employed Persons



Note: Figures for regular employees and non-regular employees prior to 2013 are based on the "detailed tabulation" in the *Labour Force Survey*. Figures for 2024/Q3 are those for July.
Source: Ministry of Internal Affairs and Communications.

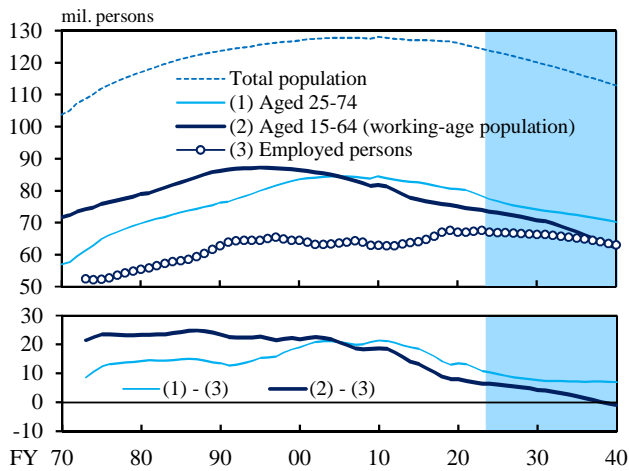
Nominal Wages per Employee



Notes: 1. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Figures for 2024/Q2 are June-July averages.
2. Figures from 2016/Q1 onward are based on continuing observations following the sample revisions.
Source: Ministry of Health, Labour and Welfare.

Employment and Income Situation in Japan

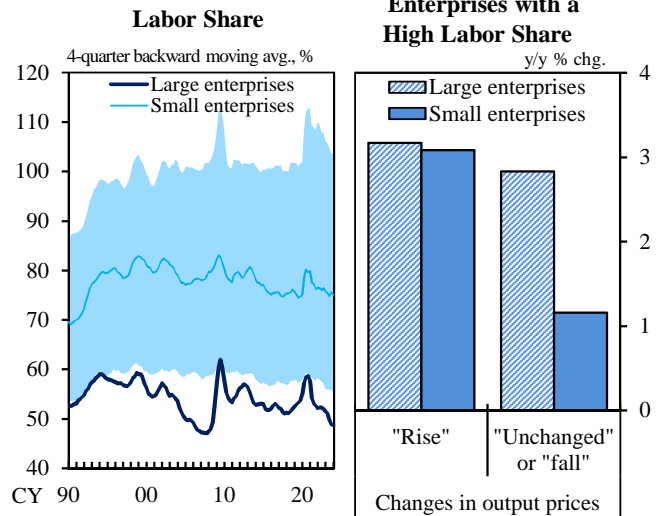
Potential Additional Labor Supply



Note: The shaded areas denote projection periods. The population projections are by the National Institute of Population and Social Security Research. The projection for the number of employed persons is calculated based on projections by the Japan Institute for Labour Policy and Training.

Sources: Japan Institute for Labour Policy and Training; Ministry of Internal Affairs and Communications; National Institute of Population and Social Security Research.

Labor Share and Wage Increases



Notes: 1. Large enterprises are enterprises with a capitalization of 1 billion yen or more. In the left panel, small enterprises are enterprises with a capitalization of 10 million yen or more but less than 100 million yen. In the right panel, small enterprises are enterprises with a capitalization of 20 million yen or more but less than 100 million yen.
 2. In the left panel, the shaded area denotes the 25th-75th percentile distribution for small enterprises, based on Bank staff calculations using microdata from the *Financial Statements Statistics of Corporations by Industry, Quarterly*. Figures exclude the finance and insurance industries and those for 2009/Q2 onward also exclude pure holding companies.
 3. In the right panel, figures show the year-on-year percentage changes in labor costs per employee in 2023/Q4. Figures are the medians of wage increases at enterprises with a high labor share and are calculated by matching microdata for enterprises that responded to both the survey for the *Financial Statements Statistics of Corporations by Industry, Quarterly* (wage increases) and the *Tankan* survey (the output prices DI). Enterprises with a high labor share are enterprises whose labor share falls into the top 50 percent in their size group.

Sources: Ministry of Finance; Bank of Japan.

Inflation Indicators

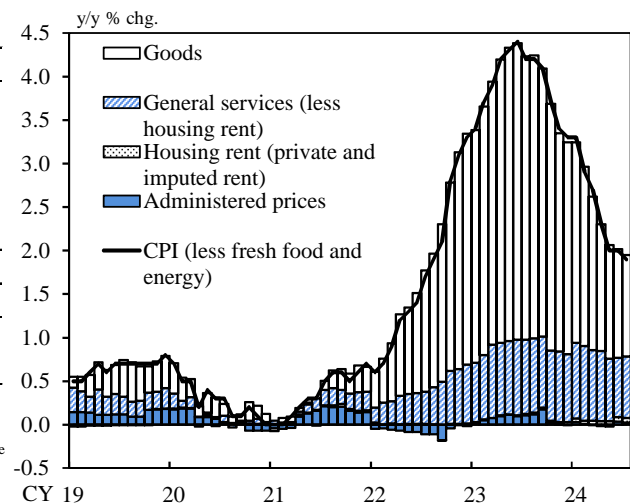
Inflation Indicators

	y/y % chg.			
	23/Q4	24/Q1	24/Q2	24/Q3
CPI				
Less fresh food	2.5	2.5	2.4	2.7
Excluding temporary factors	2.1	2.3	2.4	2.7
Less fresh food and energy	3.8	3.2	2.2	1.9
Excluding temporary factors	3.4	3.0	2.1	1.9
PPI	0.6	0.7	2.3	3.0
SPPI	2.7	2.4	2.9	2.7
GDP Deflator	3.9	3.4	3.2	
Domestic demand deflator	2.1	2.3	2.6	

Notes: 1. Figures for the PPI are adjusted for the hike in electric power charges during the summer season. Figures for the SPPI exclude international transportation.
 2. The CPI figures excluding temporary factors are Bank staff estimates and exclude the effects of free education policies, travel subsidy programs, and mobile phone charges.
 3. Figures for 2024/Q3 are those for July.

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

CPI (Excluding Temporary Factors)

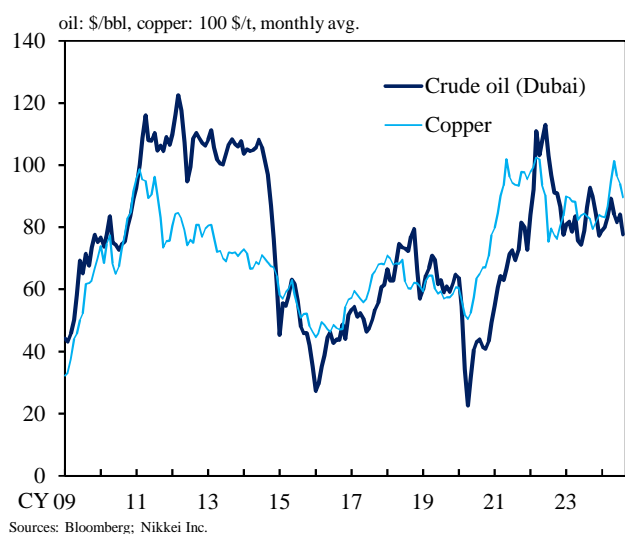


Notes: 1. "Administered prices" excludes energy prices and consists of public services and water charges.
 2. The CPI figures are Bank staff estimates and exclude the effects of the consumption tax hike, free education policies, travel subsidy programs, and mobile phone charges.

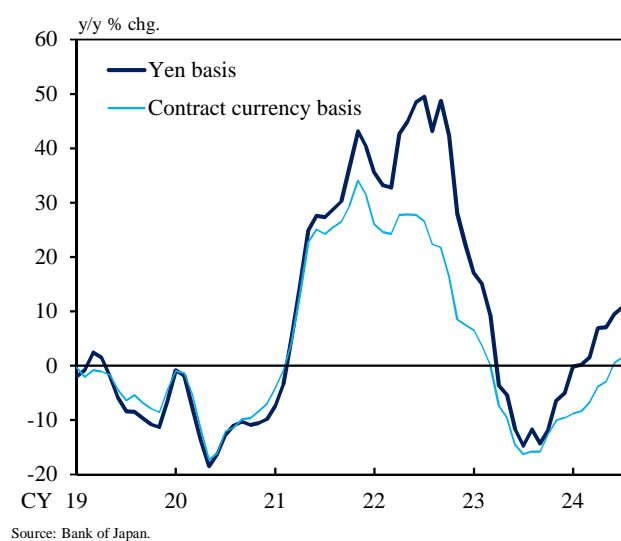
Source: Ministry of Internal Affairs and Communications.

Factors Affecting Consumer Prices

International Commodity Prices



Import Price Index



Outlook for Economic Activity and Prices (as of July 2024)

y/y % chg.

	Real GDP	CPI (all items less fresh food)	(Reference) CPI (all items less fresh food and energy)
Fiscal 2024	+0.5 to +0.7 [+0.6]	+2.5 to +2.6 [+2.5]	+1.8 to +2.0 [+1.9]
Forecasts made in April 2024	+0.7 to +1.0 [+0.8]	+2.6 to +3.0 [+2.8]	+1.7 to +2.1 [+1.9]
Fiscal 2025	+0.9 to +1.1 [+1.0]	+2.0 to +2.3 [+2.1]	+1.8 to +2.0 [+1.9]
Forecasts made in April 2024	+0.8 to +1.1 [+1.0]	+1.7 to +2.1 [+1.9]	+1.8 to +2.0 [+1.9]
Fiscal 2026	+0.8 to +1.0 [+1.0]	+1.8 to +2.0 [+1.9]	+1.9 to +2.2 [+2.1]
Forecasts made in April 2024	+0.8 to +1.0 [+1.0]	+1.6 to +2.0 [+1.9]	+1.9 to +2.1 [+2.1]

Note: Figures in brackets indicate the medians of the Policy Board members' forecasts (point estimates).
Source: Bank of Japan.

Decisions at the July 2024 MPM (1): Change in the Guideline for Money Market Operations

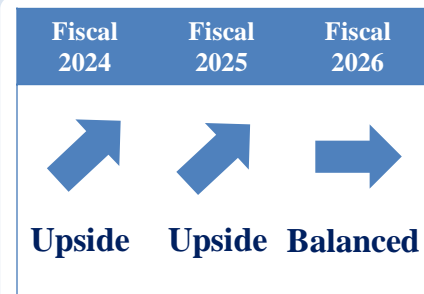
- Japan's economic activity and prices have been **developing generally in line with the Bank's outlook**. Moves to raise wages have been spreading.
- The year-on-year rate of change in import prices has turned positive again, and **upside risks to prices require attention**.

Medians of the Policy Board members' forecasts (y/y % chg.)

	Fiscal 2024	Fiscal 2025	Fiscal 2026
Real GDP	0.6 (-0.2)	1.0 (-)	1.0 (-)
CPI (all items less fresh food)	2.5 (-0.3)	2.1 (+0.2)	1.9 (-)
CPI (all items less fresh food and energy)	1.9 (-)	1.9 (-)	2.1 (-)

Note: Figures in parentheses indicate changes from the April Outlook Report.

Risk balance assessments on prices



Adjusting the degree of monetary accommodation from the perspective of sustainable and stable achievement of the price stability target of 2 percent

Short-term interest rate : raised to "around 0.25 %"

(uncollateralized overnight call rate)

(previously "around 0 to 0.1%")

- Real interest rates are expected to remain significantly negative, and accommodative financial conditions will continue to **firmly support economic activity**.
- If the outlook presented in the July Outlook Report will be realized, the Bank will accordingly continue to raise the policy interest rate and adjust the degree of monetary accommodation.

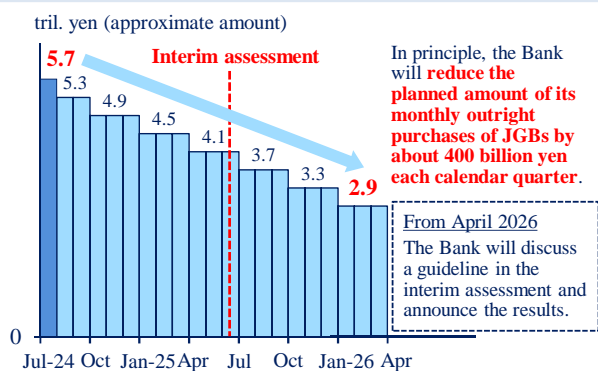
Decisions at the July 2024 MPM (2): Plan for the Reduction of the Purchase Amount of JGBs

The concept of the plan for the reduction until March 2026

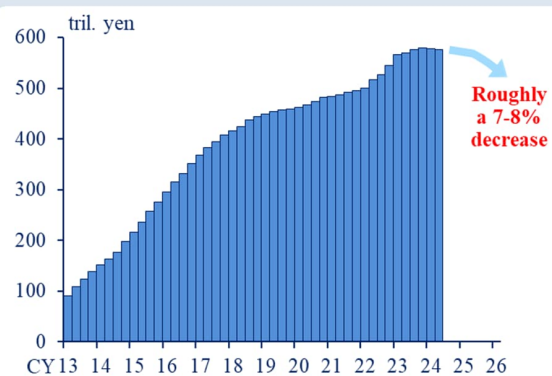
1. Long-term interest rates: to be formed in financial markets in principle
2. JGB purchases: appropriate for the Bank to **reduce its purchase amount of JGBs in a predictable manner**, while **allowing enough flexibility** to support stability in the JGB markets

Reduction in a Predictable Manner

Amount of monthly JGB purchases



The Bank's JGB holdings



Allowing Enough Flexibility

1. The Bank will **conduct an interim assessment of the plan at the June 2025 MPM**.
2. In the case of a rapid rise in long-term interest rates, the Bank will make nimble responses by, for example, increasing the amount of JGB purchases.
3. The Bank is prepared to amend the plan at the MPMs, if deemed necessary.