

# Japan's Economy and Monetary Policy

*Speech at a Meeting with Business Leaders in Nagoya*

November 5, 2019

Haruhiko Kuroda

*Governor of the Bank of Japan*

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## Introduction

### I. Economic Developments

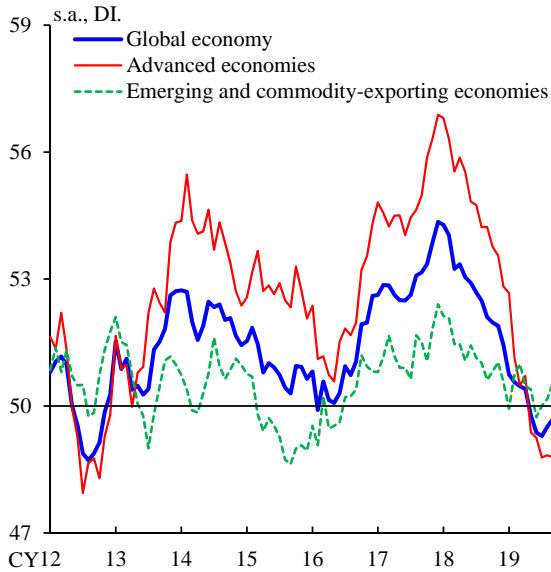
### II. Price Developments

### III. The Bank's Conduct of Monetary Policy

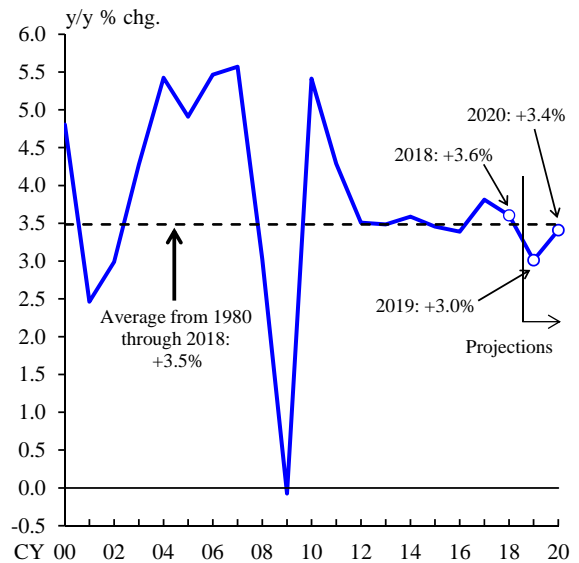
## Conclusion

# Global Economy

Global Manufacturing PMI

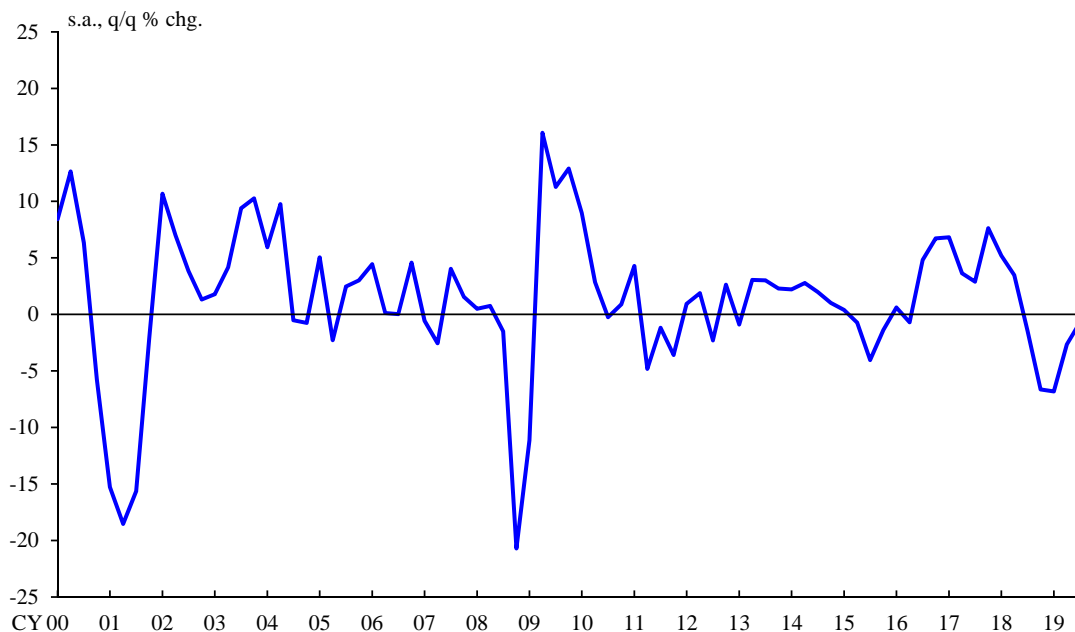


Global Growth Rate (IMF Projections)



Notes: 1. In the left 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.  
 2. In the right chart, figures for 2019 and 2020 are the IMF's projections as of October 2019.  
 Sources: IHS Markit (© and database right IHS Markit Ltd 2019. All rights reserved.); IMF, etc.

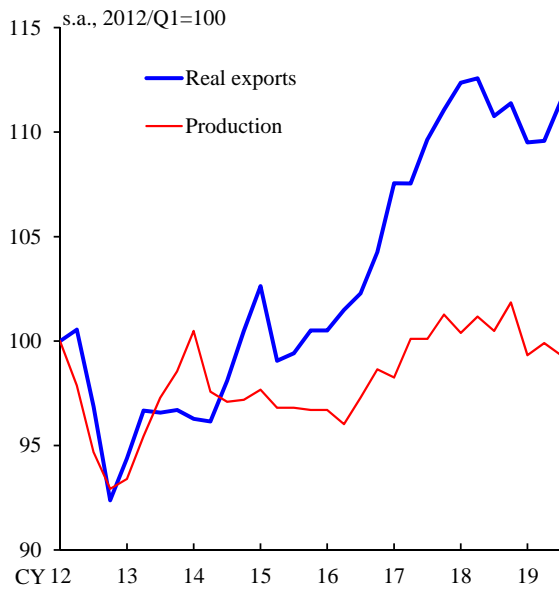
# World Semiconductor Shipments



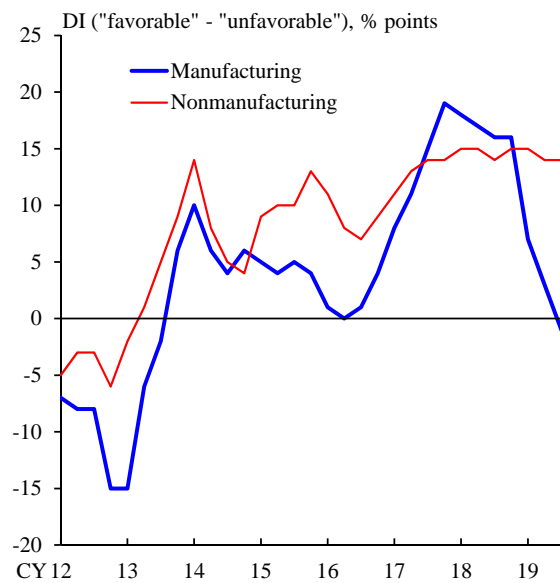
Note: Figures are based on staff estimates using WSTS data.

## Exports, Production, and Business Sentiment

*Exports and Production*



*Business Conditions DI (Tankan)*

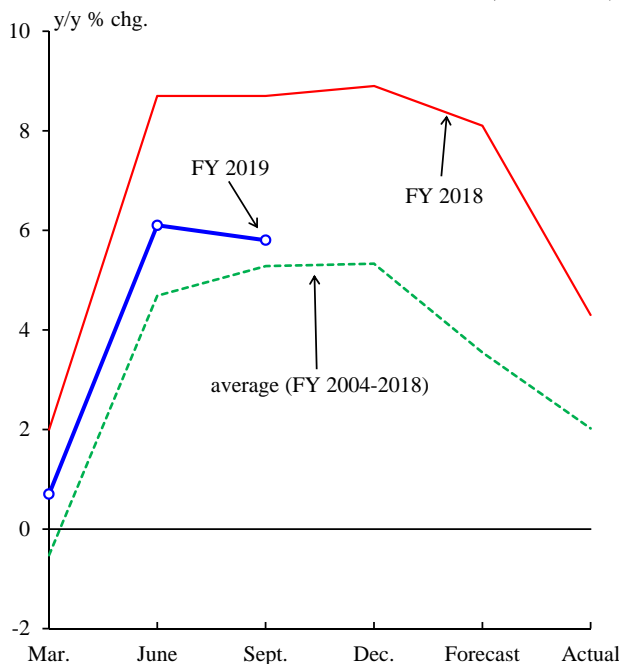


Sources: Ministry of Finance; Ministry of Economy, Trade and Industry; Bank of Japan.

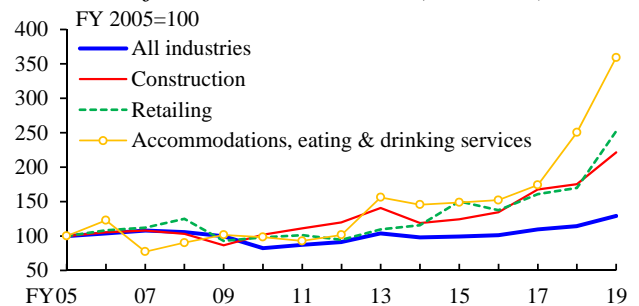
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## Business Fixed Investment

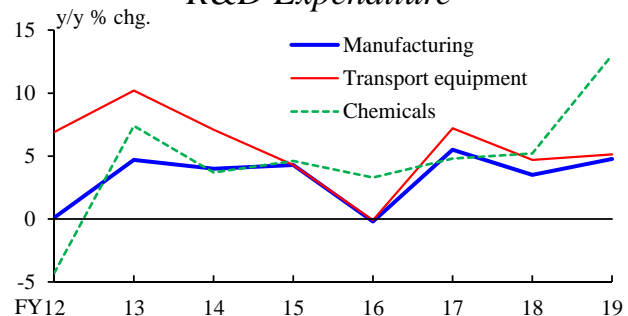
*Business Fixed Investment Plans (Tankan)*



*Software Investment (Tankan)*



*R&D Expenditure*



Notes: 1. In the left chart, figures are for all industries including financial institutions. Figures include software and R&D investment and exclude land purchasing expenses.

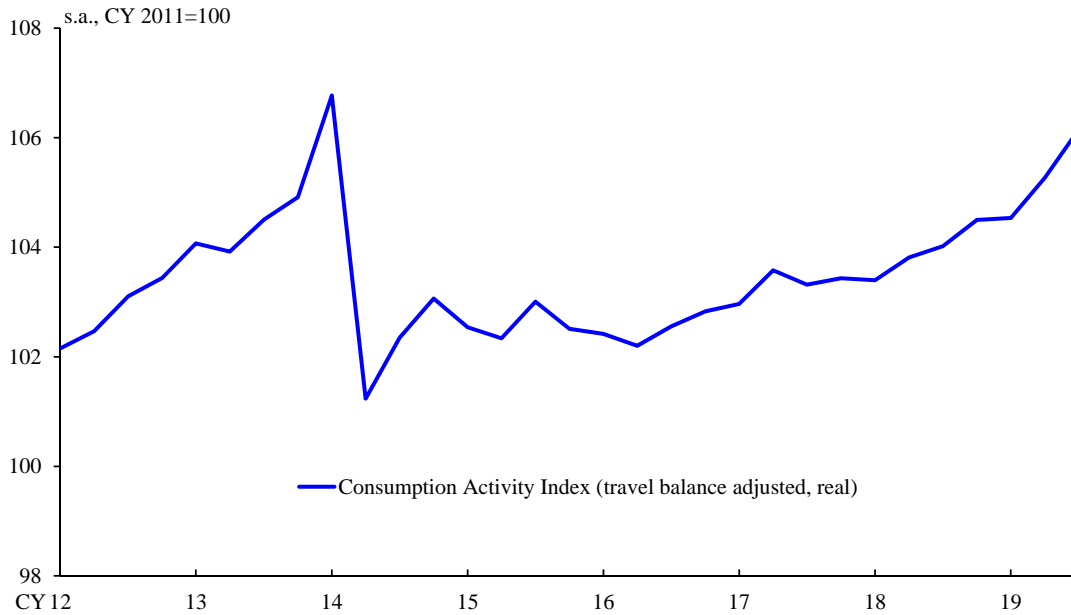
2. In the upper right chart, figures through fiscal 2018 are actual results. Figures for fiscal 2019 are forecasts from the September 2019 survey.

3. In the lower right chart, figures are those of firms with capital of 1 billion yen or more on a consolidated basis. Figures for fiscal 2019 are based on staff calculations using figures adjusted for the average of changes from planned to actual expenditure in fiscal 2012-2018.

Sources: Development Bank of Japan; Bank of Japan.

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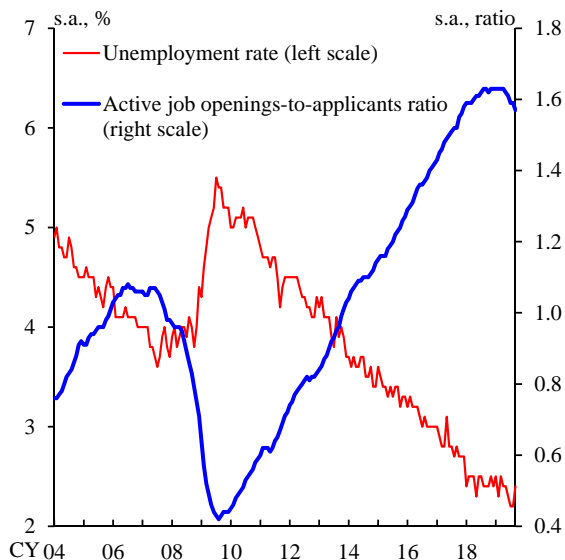
## Private Consumption



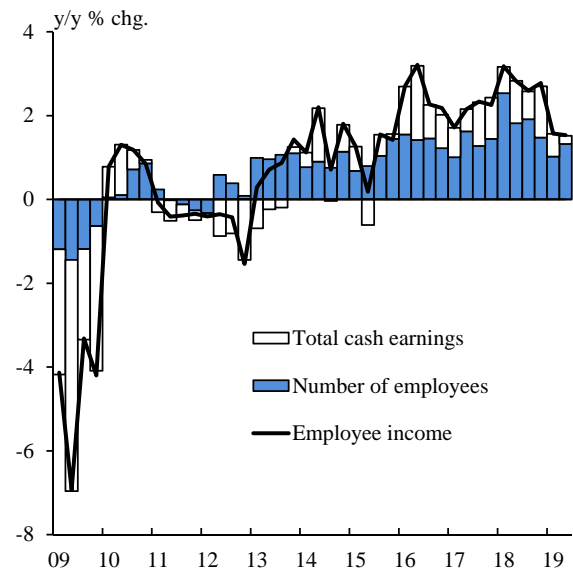
Note: Figures exclude inbound tourism consumption and include outbound tourism consumption.  
Sources: Bank of Japan, etc.

## Employment and Income Situation

*Active Job Openings-to-Applicants Ratio and Unemployment Rate*



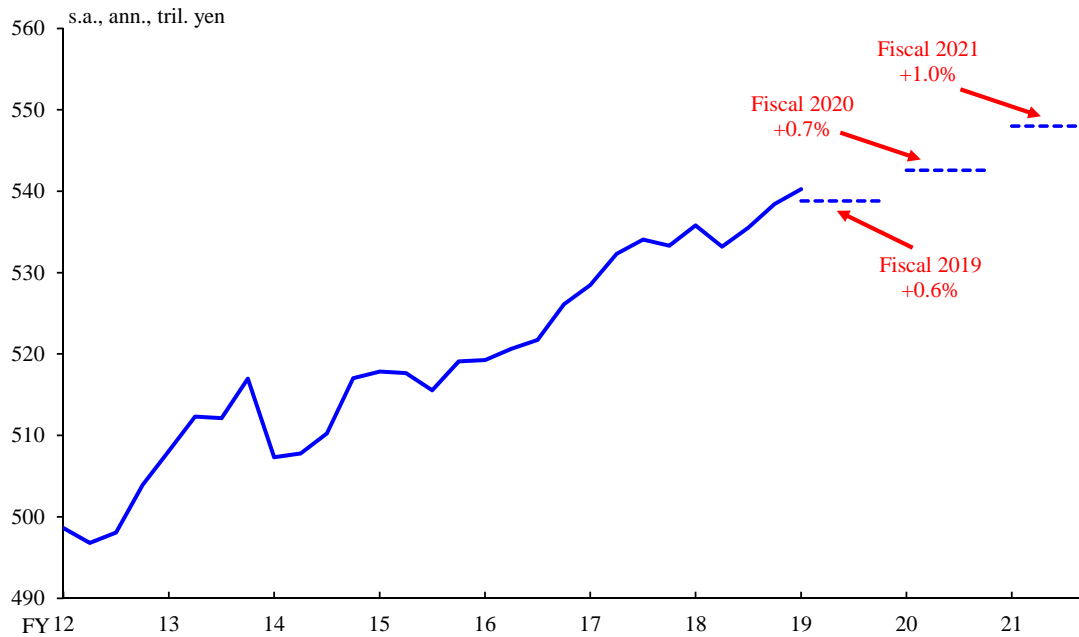
*Employee Income*



Note: In the right 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").  
Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

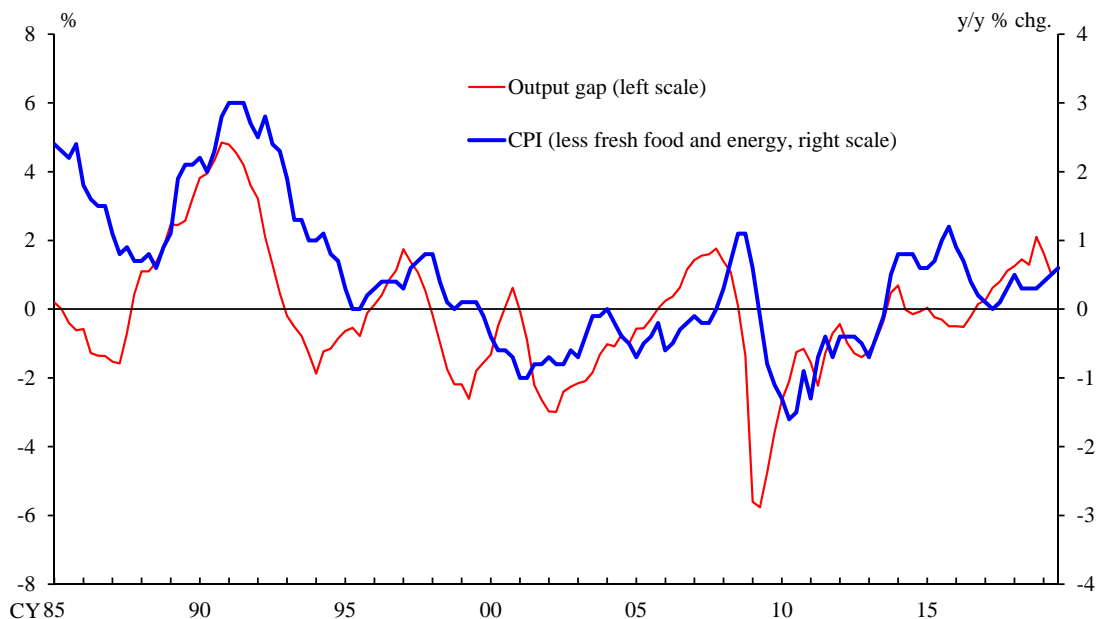
# BOJ's Economic Forecasts

*Real GDP*  
 <October 2019 Outlook Report>



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

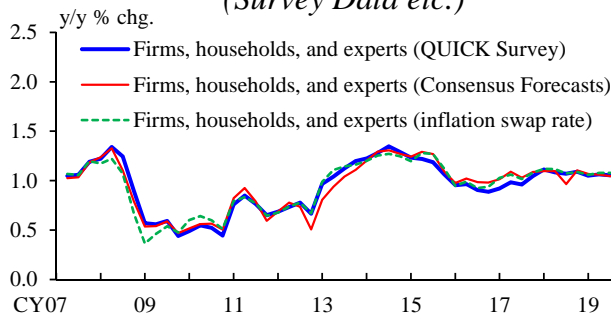
# Consumer Prices and Output Gap



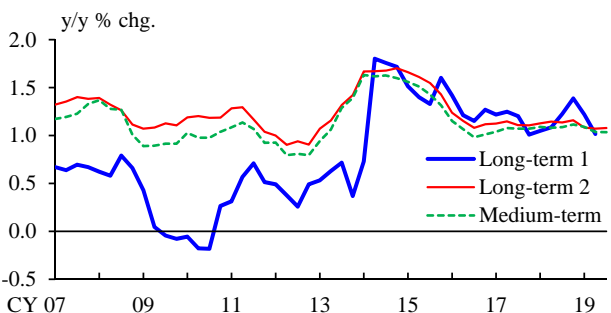
Note: Figures for the CPI are adjusted for changes in the consumption tax rate. Figures for the output gap are based on BOJ staff estimates.  
 Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

## Inflation Expectations

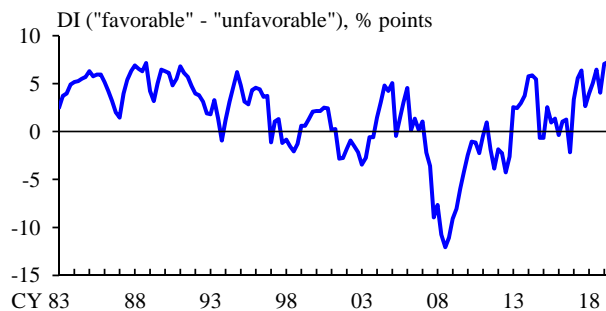
*Synthesized Inflation Expectations Indicators  
(Survey Data etc.)*



*Estimates of Inflation Expectations  
(Economic Models)*

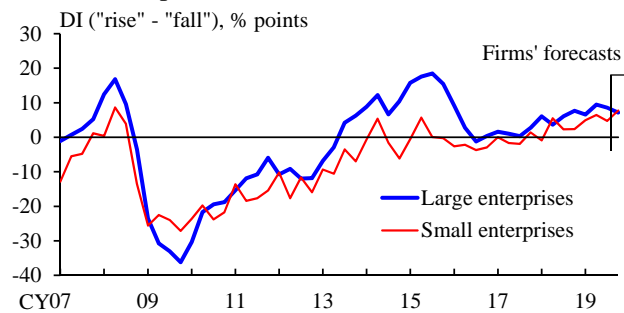


*Households' Tolerance of Price Rises*



*Output Prices DI for*

*Consumption-Related Industries (Tankan)*

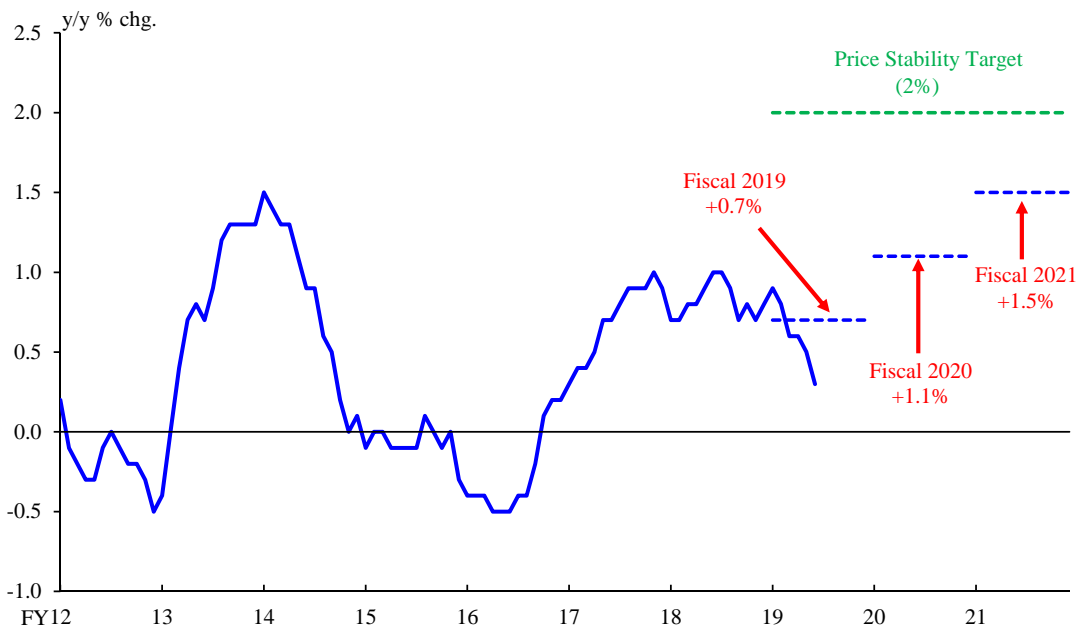


Note: For details, see BOX 7 in the October 2019 Outlook Report.

Sources: QUICK, "QUICK Monthly Market Survey (Bonds)," "QUICK Tankan"; JCER, "ESP Forecast"; Consensus Economics Inc., "Consensus Forecasts"; Wolters Kluwer, "Blue Chip Economic Indicators"; Bloomberg; Ministry of Finance; Ministry of Internal Affairs and Communications; Cabinet Office; Bank of Japan.

## BOJ's Price Forecasts

*CPI (All Items Less Fresh Food)  
<October 2019 Outlook Report>*



Note: The actual figures exclude the direct 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.

## BOJ's Conduct of Monetary Policy

*Assessment of Economic Activity and Prices from Two Perspectives*

*Excerpt from September 2019 Statement on Monetary Policy*

### The first perspective

Examining the outlook for economic activity and prices deemed most likely by the Bank of Japan

### The second perspective

Examining, in a longer term, various risks that are most relevant to the conduct of monetary policy

The Bank will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. . . . In particular, in a situation where downside risks to economic activity and prices, mainly regarding developments in overseas economies, are significant, the Bank will not hesitate to take additional easing measures if there is a greater possibility that the momentum toward achieving the price stability target will be lost.

Given that, recently, slowdowns in overseas economies have continued to be observed and their downside risks seem to be increasing, the Bank judges that it is becoming necessary to pay closer attention to the possibility that the momentum toward achieving the price stability target will be lost. Taking this situation into account, the Bank will reexamine economic and price developments at the next MPM, when it updates the outlook for economic activity and prices.

## BOJ's Forward Guidance

### BOJ decided on a new forward guidance for the policy rates (Oct. 2019)

As for the policy rates, the Bank expects short- and long-term interest rates to remain at their present or lower levels as long as it is necessary to pay close attention to the possibility that the momentum toward achieving the price stability target will be lost.

First point: Clearly related to the momentum toward achieving the price stability target.

Second point: Clarified that there was "a downward bias" in the policy rates.