

Japan's Economy and Monetary Policy

Speech at a Meeting with Business Leaders in Hiroshima

July 26, 2017

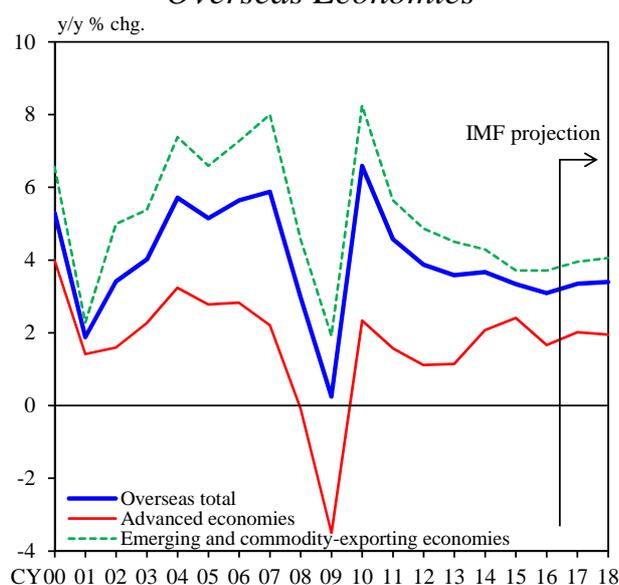
Hiroshi Nakaso

Deputy Governor of the Bank of Japan

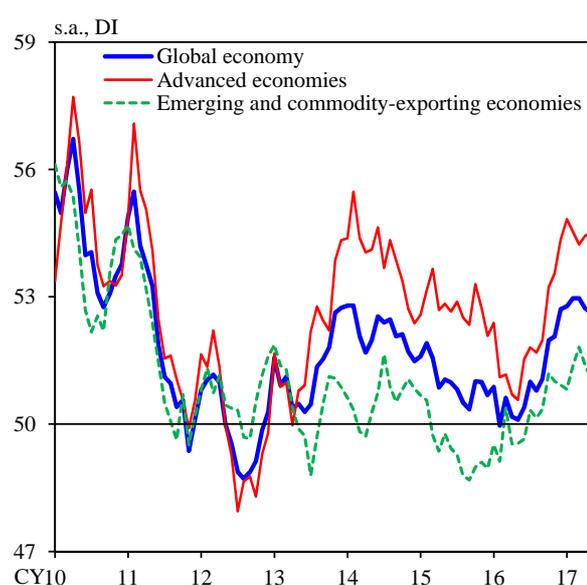
Chart 1

Overseas Economies

Real GDP Growth Rates of Overseas Economies



Manufacturing PMI

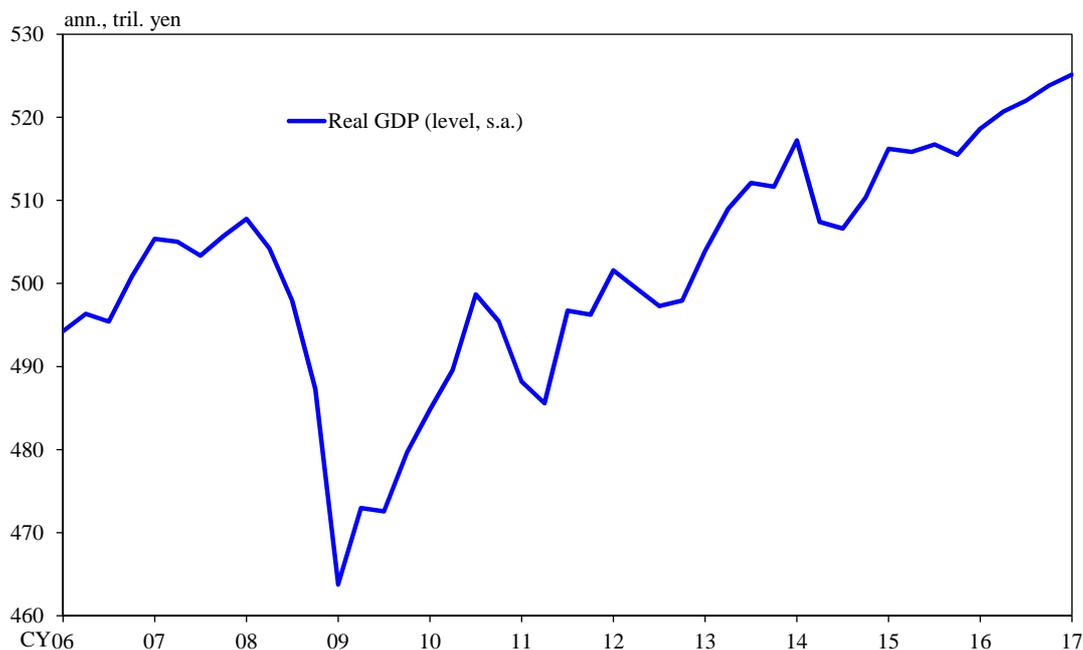


Notes: 1. Figures in the left chart are the weighted averages of real GDP growth rates using countries' share in Japan's exports as weights. Annual GDP growth rates are from the "World Economic Outlook (WEO)" as of July 2017. Since for some countries and regions the IMF does not provide projections in the July WEO, some figures are imputed using information provided in the April WEO. Advanced economies consist of the United States, the euro area, and the United Kingdom. Emerging and commodity-exporting economies consist of the rest of the world economy.

2. Figures in the right chart 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 PPP-adjusted 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.

Sources: IMF; Ministry of Finance; IHS Markit (© and database right IHS Markit Ltd 2017. All rights reserved.), etc.

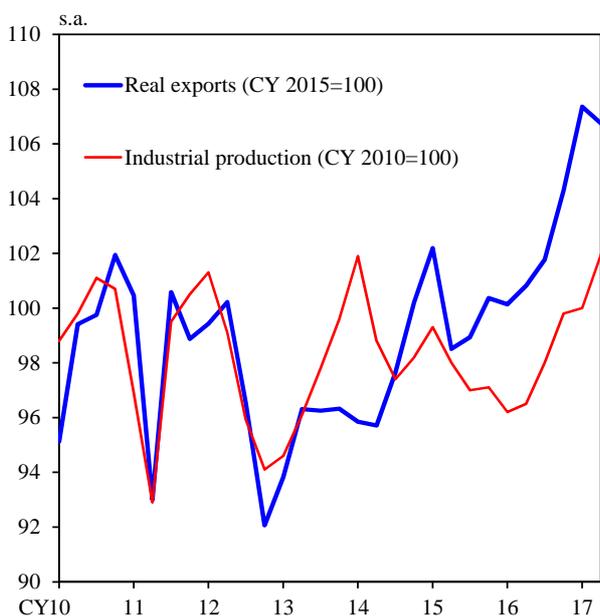
Real GDP



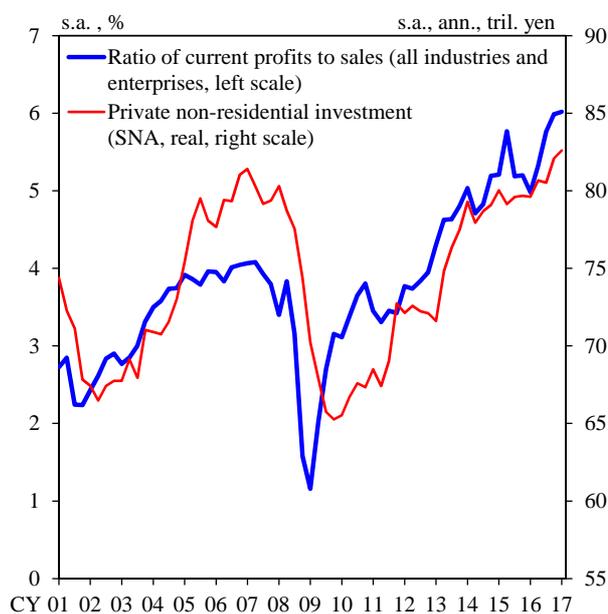
Source: Cabinet Office.

Corporate Activities

Exports and Industrial Production



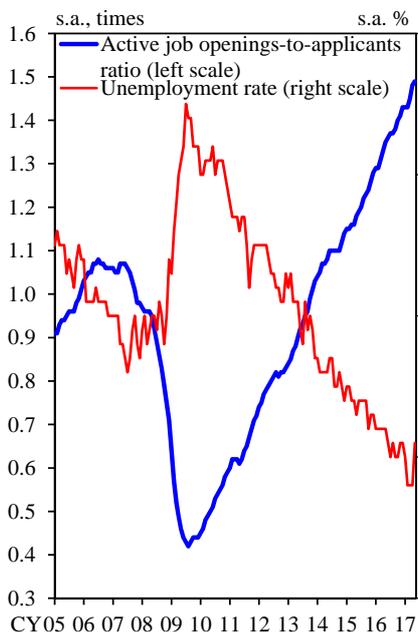
Corporate Profits and Business Fixed Investment



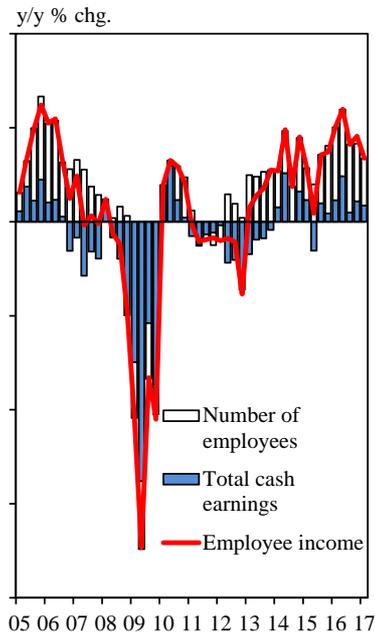
Note: Figures for corporate profits are based on the "Financial Statements Statistics of Corporations by Industry, Quarterly." Excluding "finance and insurance."
Sources: Bank of Japan; Ministry of Finance; Ministry of Economy, Trade and Industry; Cabinet Office.

Employment and Income Situation

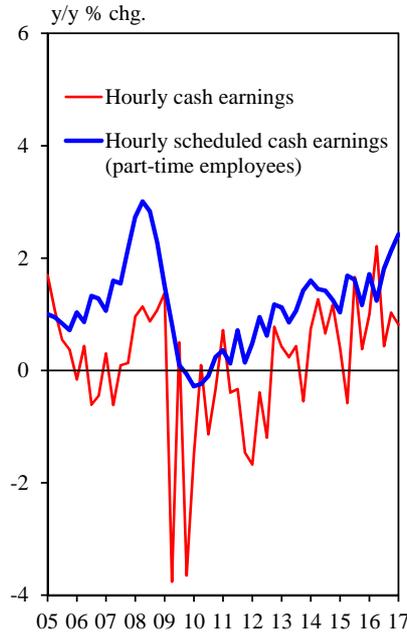
Active Job Openings-to-Applicants Ratio and Unemployment Rate



Employee Income

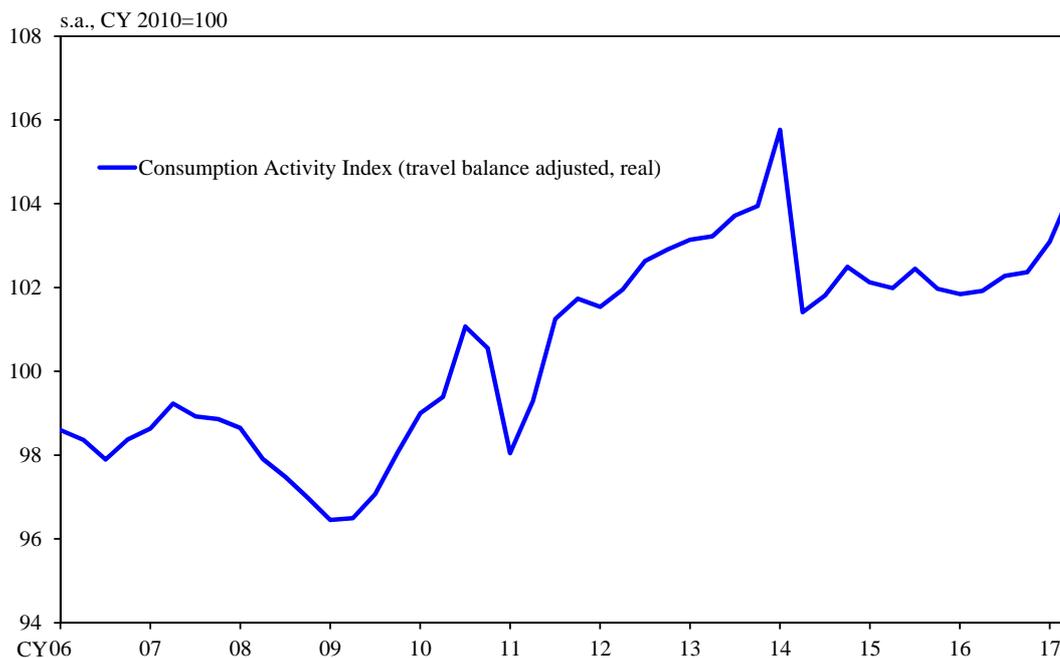


Hourly Cash Earnings



Note: For employee income and hourly cash earnings, Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

Private Consumption



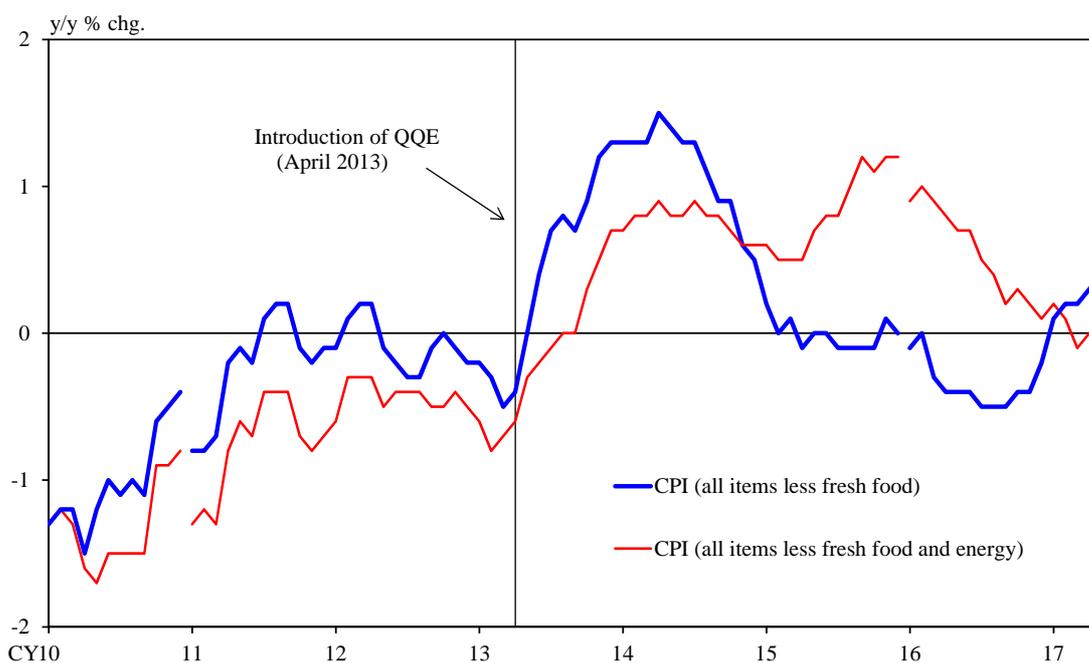
Note: Figures are based on BOJ staff calculations (as of July 13). Figures exclude inbound tourism consumption and include outbound tourism consumption.
The figure for 2017/Q2 is the April-May average.
Source: Bank of Japan.

Outlook for Economic Activity and Prices (as of July 2017)

	y/y % chg.	
	Real GDP	CPI (all items less fresh food)
Fiscal 2017	+1.8	+1.1
Forecasts made in April 2017	+1.6	+1.4
Fiscal 2018	+1.4	+1.5
Forecasts made in April 2017	+1.3	+1.7
Fiscal 2019	+0.7	+1.8
Forecasts made in April 2017	+0.7	+1.9

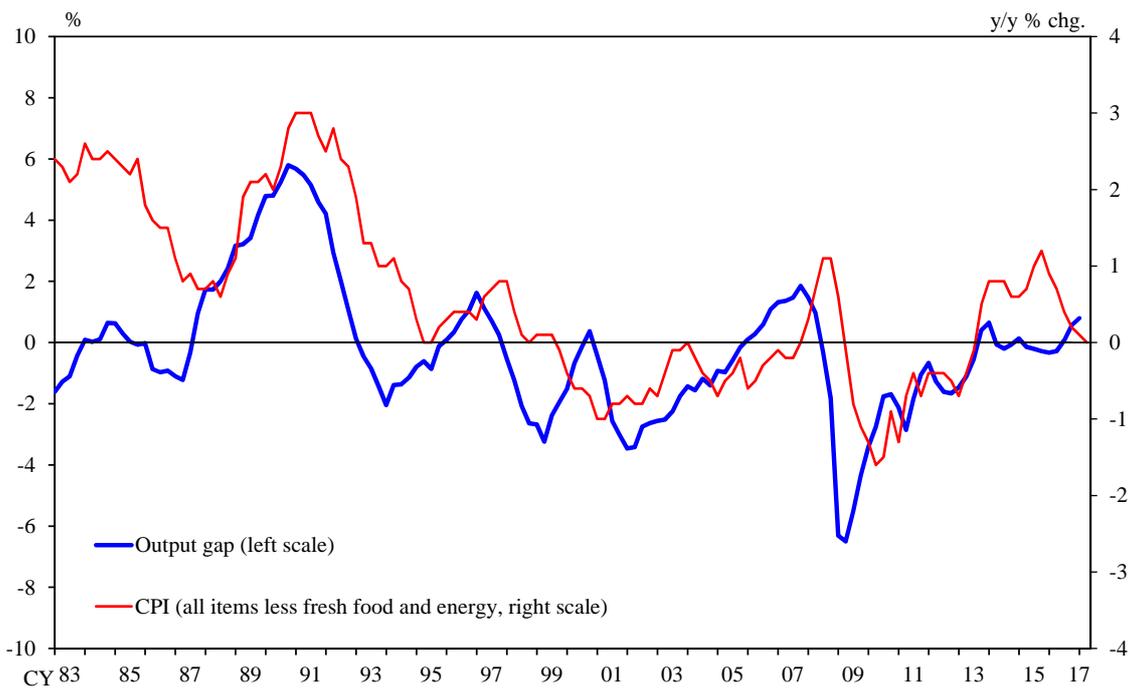
Note: Figures indicate the medians of the Policy Board members' forecasts (point estimates). Figures for the CPI (all items less fresh food) exclude the effects of the consumption tax hikes.
Source: Bank of Japan.

Consumer Prices



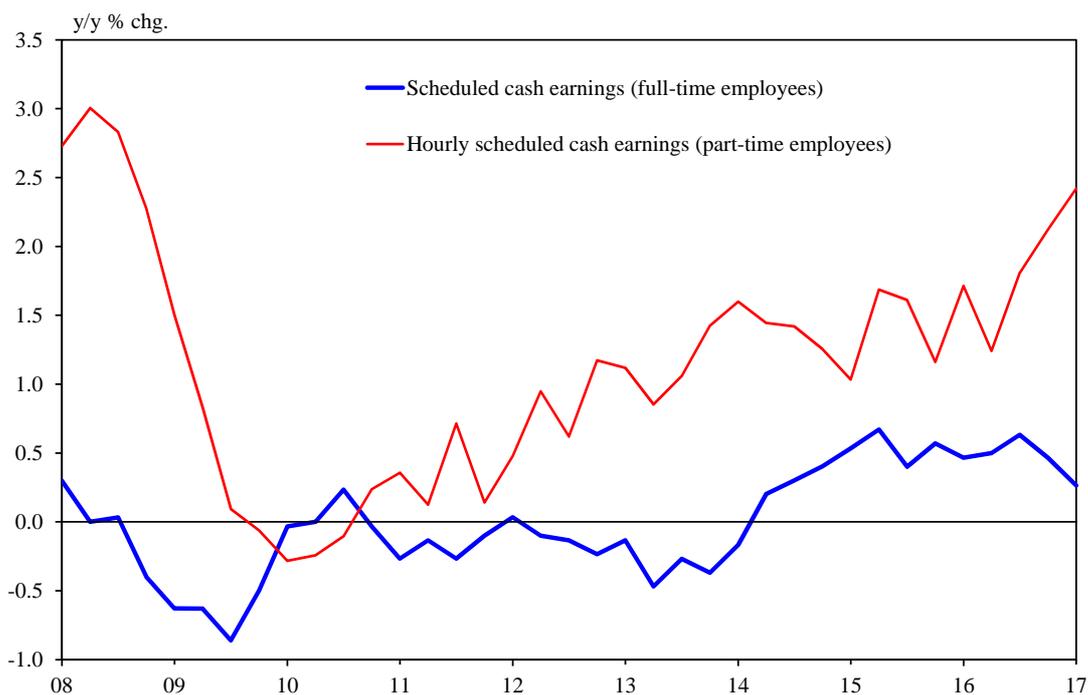
Note: The CPI figures are adjusted for changes in the consumption tax rate.
Source: Ministry of Internal Affairs and Communications.

Output Gap and Prices



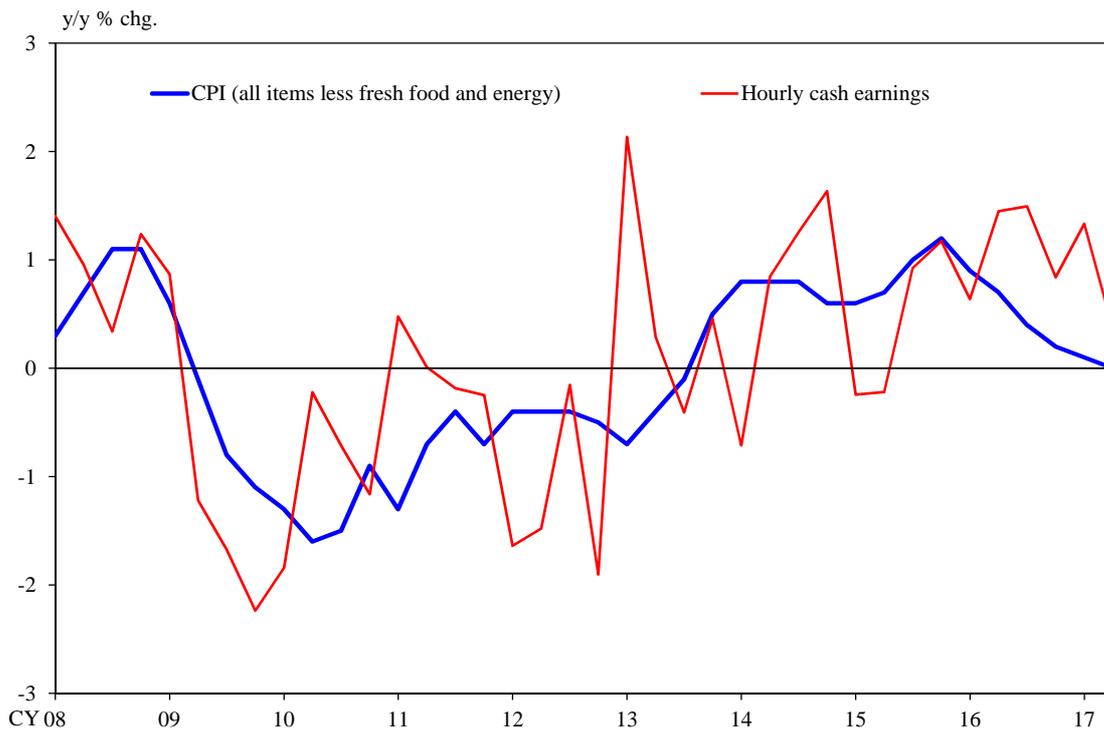
Notes: 1. The CPI figures are adjusted for changes in the consumption tax rate. The figure for 2017/2Q is the April-May average.
 2. The output gap is based on BOJ staff estimations.
 Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

Wages of Full-time and Part-time Employees



Note: Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.
 Source: Ministry of Health, Labour and Welfare.

Wages and Prices

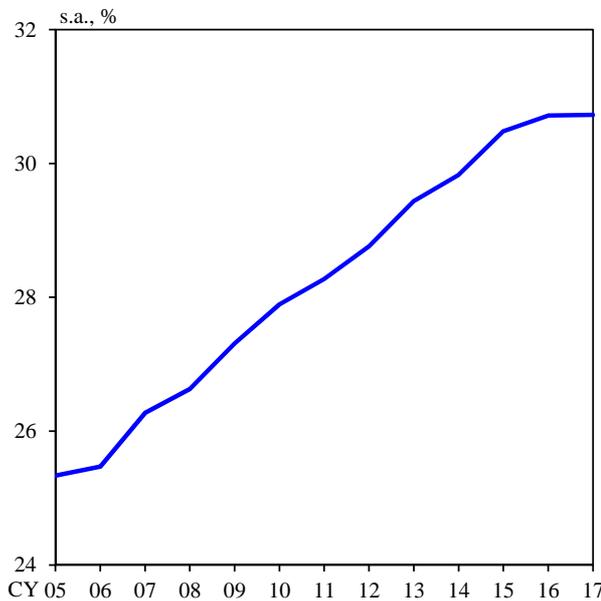
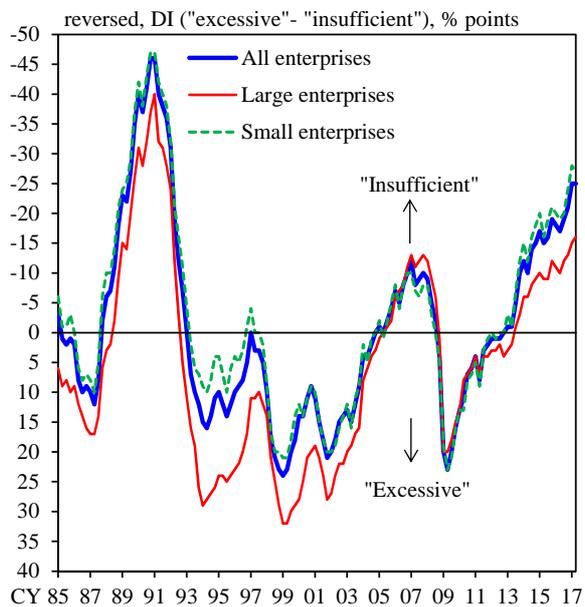


Note: 1. The CPI figures are adjusted for changes in the consumption tax rate.
 2. Figures for 2017/2Q are April-May averages.
 Sources: Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare.

Tightening of Labor Market Conditions and the Ratio of Part-time Employees

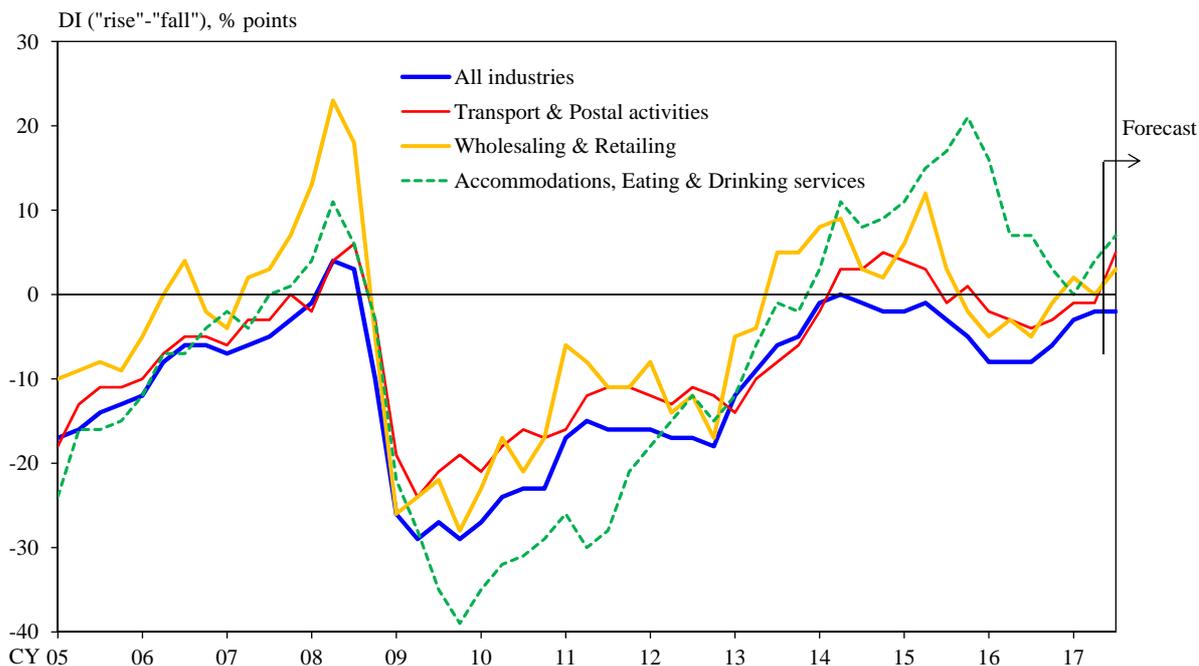
Tankan: Employment Conditions DI

Ratio of Part-time Employees



Note: The figure for the ratio of part-time employees for 2017 is January-May average.
 Sources: Bank of Japan; Ministry of Health, Labour and Welfare.

Tankan: Change in Output Prices DI



Source: Bank of Japan.

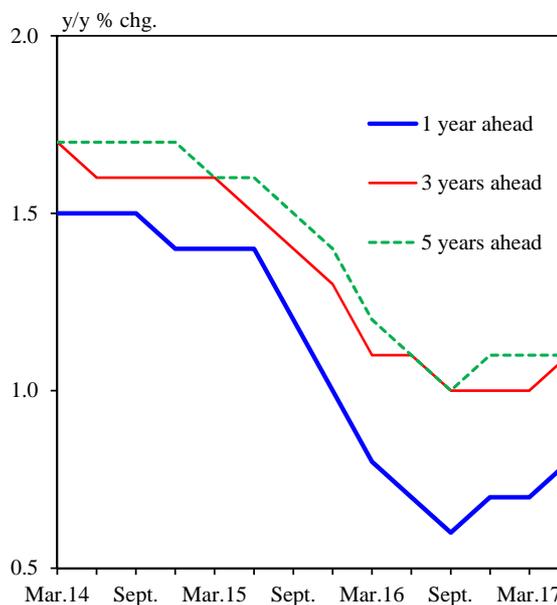
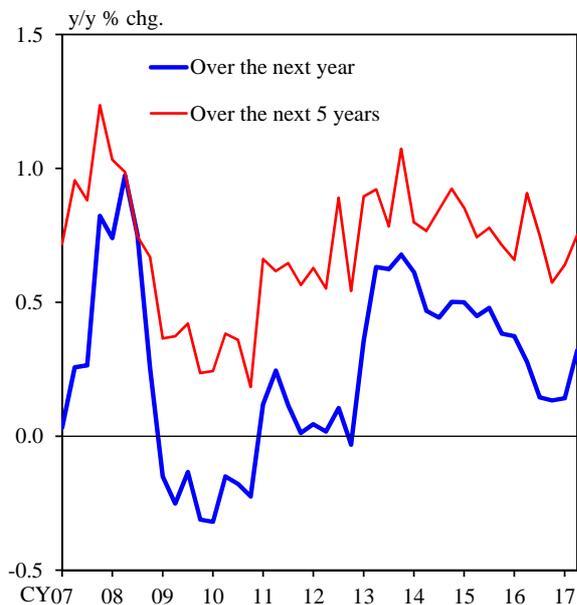
Inflation Expectations

Households

(Opinion Survey on the General Public's Views and Behavior)

Firms

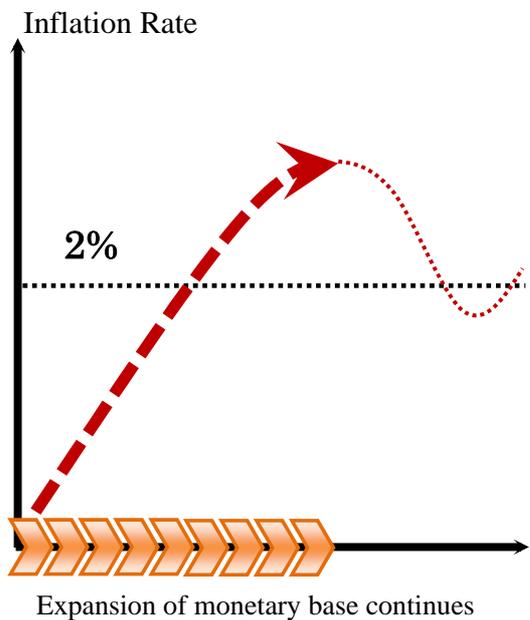
(Tankan, All Industries and Enterprises, Average)



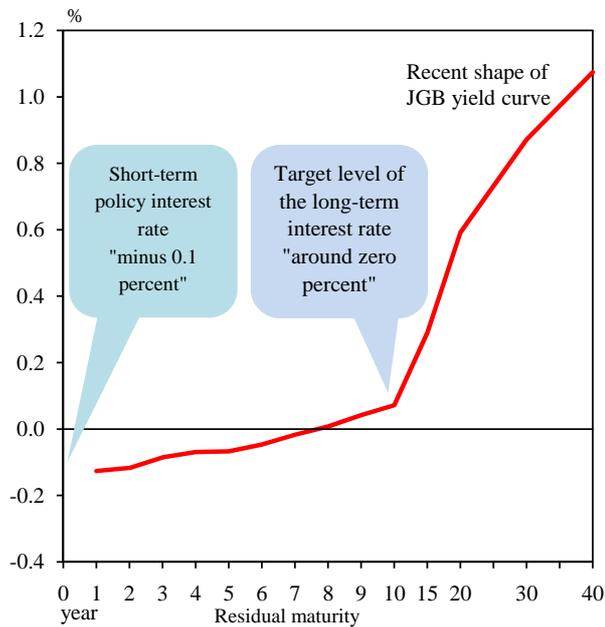
Notes: 1. Figures for households are estimated using the modified Carlson-Parkin method.
 2. Figures for firms are "Outlook for General Prices."
 Source: Bank of Japan.

QQE with Yield Curve Control

Inflation-Overshooting Commitment



Yield Curve Control



Source: Bloomberg.