



April 18, 2024

Bank of Japan

**Economic Activity, Prices,  
and Monetary Policy in Japan**

*Speech at a Meeting with Local Leaders in Saga*

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(English translation based on the Japanese original)

## **I. Economic Activity and Prices**

### **A. Economic Developments at Home and Abroad**

I will begin my speech by talking about recent economic developments at home and abroad.

For long periods after the bursting of the bubble economy in the 1990s, Japan's economy was confronted with a situation in which neither prices nor wages rose. Nevertheless, in the wake of global inflation that started in spring 2021, the year-on-year rate of increase in Japan's consumer price index (CPI) for all items excluding fresh food has continued to exceed 2 percent since spring 2022. Furthermore, the economy is starting to revert to a state where nominal wages increase steadily every year, as was the case before the bursting of the bubble economy. This is evidenced by wage growth following the 2023 annual spring labor-management wage negotiations becoming the highest in 30 years, and by an increasing possibility that the growth this year will be even higher. Under these circumstances, nominal GDP, which continued to fluctuate at the 550 trillion yen level or below for more than 30 years, has almost reached 600 trillion yen (Chart 1). That is, it can be said that Japan is now finally about to exit from the deflationary economy with marginal nominal growth, which has long continued since the bursting of the bubble economy.

Turning to overseas economies, many countries and regions gradually have been increasingly shifting their focus to maintaining economic growth, as the high inflation caused by the post-pandemic reopening of the economies has begun to subdue. From spring 2022, major central banks in the United States and Europe rapidly raised their policy interest rates in order to contain high inflation. This phase almost ended in summer 2023, and they are currently in the phase of keeping interest rates higher for longer (Chart 2). That said, central banks are likely to enter a phase of gradually reducing their policy interest rates -- presumably, once they are confident that inflation can be contained -- in order to avoid economic overkill due to high interest rates.

Although this overall direction of the global economy is clear, economic conditions vary markedly across countries and regions. The U.S. economy has been notably firm relative to other economies. It is making progress on bringing inflation down while maintaining a low unemployment rate and a high economic growth rate; the risk of a hard landing, which was a

matter of concern, has been almost fully dispelled. In Europe, employment has been resilient but the economic growth rates have been sluggish; some economies even appear to be in a recessionary situation. The Chinese economy has remained in a lull, due in part to policy support. However, it has not sufficiently diverged from the deflationary trend brought about by the real estate recession. In sum, although the global economy as a whole is likely to keep slowing moderately for the time being, it is expected to gradually return to its potential growth path from 2025, with inflation rates and interest rates declining (Chart 3).

Japan's economy has been on a moderate recovery trend, but its growth has remained sluggish. Specifically, the GDP for the July-September quarter of 2023 decreased by 3.2 percent, and that for the October-December quarter rose by 0.4 percent, both on an annualized quarter-on-quarter basis (Chart 4). Private consumption has been noticeably weak; this is likely because lower real wages due to inflation have pushed down real consumption, with post-pandemic pent-up demand diminishing (Chart 5). To move out of this trend, real wages need to start rising. For this to happen, it is important that the year-on-year rate of increase in the CPI remain stable at around 2 percent, and that nominal wage growth rise to above 2 percent.

## **B. Price Developments**

Turning to Japan's price developments, the year-on-year rate of increase in the CPI for all items excluding fresh food exceeded 2 percent for April 2022 and reached 4 percent for December of that year. It then fell to 2 percent, due partly to a decline in energy prices owing to government support measures, and the latest figure is in the range of 2.5-3.0 percent. However, as indicated by the continued high contribution of food product prices to the rise in the CPI, inflationary pressure that reflects the effects of higher import prices persists (Chart 6). On the other hand, when comparing the contributions of goods prices and services prices to CPI inflation, that of services prices has remained at a high level while that of goods prices has peaked out (Chart 7). This may suggest that the factor pushing up prices is gradually shifting from inflationary pressure resulting from a pass-through of the rise in import prices to consumer prices, or what we call "the first force," to inflationary pressure stemming from wage increases, or what we call "the second force."<sup>1</sup>

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<sup>1</sup> Regarding the first and second forces of price rises, see Ueda, K., "Japan's Economy and Monetary Policy," speech at a meeting with business leaders in Osaka, September 25, 2023.

As I will elaborate on later, to achieve the price stability target of 2 percent in a sustainable and stable manner, services prices must continue rising in a situation where nominal wage growth that clearly exceeds 2 percent takes hold as a trend. This is because, when nominal wages rise, moves to pass on the rise to prices will be most notable for the services sector, where wages account for a large share of costs. However, the current rise in services prices is mainly due to an increase in those for dining-out on the back of a rise in the cost of food ingredients, and it is too early to say that the main factor is wage increases. In this sense, it can be said that the second force of price rises has only just begun to take effect.

## **II. Monetary Policy**

### **A. Policy Tools of Large-Scale Monetary Easing and Their Transition**

Let me now turn to the Bank of Japan's policy conduct. With the aim of achieving the price stability target of 2 percent, the Bank introduced quantitative and qualitative monetary easing (QQE) in April 2013. Thereafter, in order to enhance monetary easing while responding to developments in economic activity and prices, it implemented QQE with a Negative Interest Rate in January 2016. Furthermore, the Bank introduced QQE with Yield Curve Control in September that year. Under this so-called yield curve control framework, it set the target level of 10-year Japanese government bond (JGB) yields at around zero percent. As needed, it modified the conduct of yield curve control by taking into account a balance between the positive and side effects.

The Bank introduced these measures from 2013 as tools of large-scale monetary easing. They were aimed at overcoming the deflationary economic conditions that Japan had suffered over a long period. It is therefore natural for the Bank to scale back or terminate the measures once the virtuous cycle between wages and prices progresses and achievement of the price stability target of 2 percent comes in sight. While I partially dissented, various decisions were made at the previous Monetary Policy Meeting (MPM) held in March 2024, including the following: the removal of the yield curve control framework; the termination of the negative interest rate policy; the abolishment of the inflation-overshooting commitment regarding an expansion of the monetary base; and the change in the guidelines for asset purchases (Chart 8). These decisions were based on the assessment that the likelihood of achieving the price stability target had risen sufficiently. I consider that the Bank will take measures such as

gradually raising its policy interest rate and making adjustments to its balance sheet by modifying the purchase amount of JGBs, while carefully examining their appropriateness. In what follows, I would like to offer my take on the issue of an exit from the Bank's monetary easing. I will then consider the implications of the decisions made at the previous MPM and the future direction of monetary policy.

## **B. Meaning of an Exit from Unconventional Monetary Policy**

The policy tools introduced by the Bank from 2013 are referred to as unconventional monetary policy. This represents a contrast from conventional monetary policy, for which a basic tool is guiding money market rates as policy interest rates. The earliest example of unconventional monetary policy is the Bank's quantitative easing (QE) policy, implemented from March 2001 to March 2006. This policy was aimed at overcoming deflation, which was becoming severe in Japan at that time. Subsequently, in the wake of the Global Financial Crisis (GFC) that began in autumn 2008 and the COVID-19 pandemic that broke out in spring 2020, most of the major central banks shifted from conventional to unconventional monetary policy.

The most common tool of unconventional monetary policy is large-scale asset purchases by a central bank, usually referred to as QE. Many major central banks implemented this because the GFC and the pandemic compelled them to rapidly reduce short-term interest rates, consequently leaving little room for further reductions. These central banks then shifted to an asset purchase policy, which led to discontinuous expansions of their balance sheets (Chart 9).

The primary objective of this QE was to purchase more assets and thereby apply an easing effect to overall financial conditions, including real long-term interest rates. Furthermore, some central banks, including the Bank of Japan, introduced a negative interest rate policy, under which a negative interest rate is applied to current account balances held by financial institutions at a central bank. Some implemented yield curve control, in which they controlled not only short-term but also longer-term interest rates. It can be said that, similar to the QE, these policy measures were aimed at an enhanced easing of overall financial conditions. In this regard, unconventional monetary policy differs from conventional monetary policy,

because the latter focuses on the effects generated through the transmission of interest rate changes in the money market to other financial markets.

These unconventional monetary policy measures have been effective in maintaining accommodative financial conditions, particularly through the lowering of term premiums on long-term interest rates.<sup>2</sup> Following the COVID-19 pandemic, economies around the world achieved rapid recovery. This is likely to be the result of these enhancements of unconventional monetary policy by central banks, together with government fiscal support measures.

Especially from 2022, however, not only did central banks discontinue or unwind their QE policies, but they also raised money market rates -- i.e., policy interest rates (Chart 2). They did so in response to high inflation, which can be considered the side effects of overly rapid economic recovery. These policy actions mean that central banks returned to a conventional framework in terms of policy tools while maintaining ample reserve balances that were generated as a result of the QE they implemented until then.

### **C. Implications of Changes in the Monetary Policy Framework Decided at the March MPM**

As explained, an exit from unconventional monetary policy generally means reverting the focus of monetary policy from making quantitative adjustments that aim at accommodative financial conditions to making adjustments to money market rates that are regarded as policy interest rates. In this regard, the Bank implemented the negative interest rate policy and yield curve control after it introduced QQE, with the aim of more powerfully containing long-term yield fluctuations. Therefore, as a step toward such an exit, it needed to consider scaling back or terminating these policy measures.

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<sup>2</sup> Former Federal Reserve Chair Ben S. Bernanke has pointed out that the effects of combining QE and forward guidance to keep interest rates low are equivalent to the maximum of about 3 percentage points of a policy interest rate reduction. For details, see Bernanke, B. S., *21st Century Monetary Policy: The Federal Reserve from the Great Inflation to COVID-19* (New York: W.W. Norton & Company, 2022), p. 316. With respect to Japan, it has been pointed out that the extent to which term premiums were lowered expanded particularly after entering the period of QQE. For details, see Sudo, N. and Tanaka, M., "Quantifying Stock and Flow Effects of QE," *Journal of Money, Credit and Banking*, 53, no. 7 (2021).

At the March MPM, the Bank decided to set a new guideline for market operations: it terminated the negative interest rate policy and decided to encourage the uncollateralized overnight call rate to remain at around 0 to 0.1 percent, regarding it as the policy interest rate. It also abolished the yield curve control framework, which included setting the target level of and upper bound on 10-year JGB yields. At the same time, it decided to continue its JGB purchases at broadly the same amount as before, at about 6 trillion yen per month. In my view, these decisions mean that the Bank at this point has shifted to a framework of continuing JGB purchases under the policy interest rate of around 0 percent.

Regarding the decisions made at the March MPM, I voted for the abolishment of the yield curve control framework and the continuation of JGB purchases. On the other hand, I voted against the termination of the negative interest rate policy, since I considered it more appropriate at this stage to continue JGB purchases under the negative interest rate policy. This is because I deemed that, in order to confirm whether the virtuous cycle between wages and prices had become more solid, the Bank needed to more carefully assess the rise in services prices and the progress in the pass-through of cost increases to selling prices by small and medium-sized firms. I will return to this topic later. I also considered that terminating the yield curve control framework and the negative interest rate policy simultaneously entailed a risk of bringing about discontinuous changes in financial conditions, including long-term interest rates. In other words, my view was that, since the existing situation suggested the need to hold down long-term interest rates, even indirectly through JGB purchases, it was desirable to keep the negative interest rate policy, as this is effective to some extent in holding down long-term interest rates.

#### **D. Gradual Hikes in Policy Interest Rate and Balance-Sheet Adjustments**

From the perspective of sustainable and stable achievement of the price stability target, the Bank will make a full-fledged transition to a framework of policy interest rate adjustments accompanied by ample reserve balances; under this framework, it will guide the short-term interest rate in response to developments in economic activity and prices as well as financial conditions. The focus then will be on the pace at which the policy interest rate is adjusted and the level at which it eventually settles.

Starting with the pace of policy interest rate adjustments, this is expected to be far slower than adjustments by other major central banks in recent years. The foremost reason is that the "zero norm" with regard to prices and wages -- which I will describe later -- persists despite loosening somewhat, and that it will likely take considerable time to reach a situation where an underlying trend of around 2 percent inflation takes hold.

Moreover, the long-term neutral interest rate -- the terminal level of the policy interest rate -- is likely to be lower instead of higher than in other economies. This long-term neutral interest rate is in general derived as the sum of the long-term equilibrium real interest rate -- generally referred to as the natural rate of interest or  $r^*$  (r-star) -- and the target inflation rate. It is therefore often assumed that, if the inflation target is 2 percent, the long-term neutral interest rate will naturally exceed 2 percent. However, it is quite possible that the long-term equilibrium real interest rate in Japan is negative, given that the country has constantly had excess savings, with its current account balance remaining in a surplus over the past few decades. In any case, it should be carefully borne in mind that the long-term neutral interest rate is affected by a variety of factors, and thus it should be interpreted with considerable latitude and the Bank in practice needs to keep searching for a way to approximate this rate.

What is likely to happen in parallel with these policy interest rate adjustments is adjustments to the Bank's balance sheet through the unwinding of QE, commonly referred to as tapering or quantitative tightening. While this represents a return to the conventional framework, it is important to note that the situation today differs from that during the period of scarce reserve balances prior to the GFC, when money market rates were guided and maintained exclusively through money market operations. Now the policy interest rate is determined and guided mainly through the interest rate applied to current account balances held by financial institutions at the Bank. This means that, under the current policy regime -- which is based on ample reserve balances accumulated through QE -- short-term interest rate control and balance-sheet adjustments are completely unconnected, and thus the Bank is able to raise its policy interest rate without reducing the size of its balance sheet.

However, even if this is the case, it is desirable to start reducing the balance sheet size at some stage in the future, especially to improve market functioning. At the March MPM, the Bank



decided to discontinue purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs), and to gradually reduce the amount of purchases of CP and corporate bonds. It also abolished the inflation-overshooting commitment regarding an expansion of the monetary base. These decisions can be regarded as one step toward reducing the balance sheet size.

### **III. Path toward Achieving the Price Stability Target Accompanied by Wage Increases**

#### **A. Wage Increases as a Necessary Condition for Achieving the Price Stability Target**

The Bank has long stressed that, to achieve the price stability target of 2 percent in a sustainable and stable manner, price increases must be accompanied by wage increases. The reason is that wages -- the price of labor -- are an essential factor of production for all goods and services, and thus prices are unlikely to continue rising in a stable manner unless wages keep increasing as a trend. In fact, inflation often shows a strong correlation with wage growth (Chart 10).

This strong link between wages and prices explains why many central banks today continue to pay particularly close attention to labor market conditions. Generally, in a situation where price stability is achieved, inflation expectations should be anchored to the inflation target as monetary policy adjusts aggregate demand and thereby maintains an appropriate supply-demand balance. In this situation, nominal wage growth is likely to be stable at the value derived as the sum of the target inflation rate and the labor productivity growth rate.

In this regard, U.S. and European central banks have continued with stringent monetary tightening for the following reason: supply-side constraints and tight labor market conditions that resulted from the COVID-19 pandemic have led to upswings in inflation and nominal wage growth, and of these, nominal wage growth has remained clearly above the level consistent with the inflation target (Chart 11). The Bank of Japan, on the other hand, continues to pursue monetary easing because it judges that, although nominal wage growth has finally started to rise, the second force of price rises -- namely, the pass-through of wages to prices -- is not sufficiently robust yet, and thus underlying inflation has not reached 2 percent.

## **B. The "Zero Norm" That Has Prevented Wages and Prices from Rising**

As outlined, monetary policy usually affects labor market conditions through its effect on aggregate demand, which in turn influences wages and prices. According to economic theory, nominal wages should tend to rise if job openings expand vis-à-vis job seekers, causing an increase in the job openings-to-applicants ratio, which is the ratio of labor demand to labor supply. In the United States, a clear correlation between the ratio of job openings to unemployment and nominal wage growth can indeed be observed, whereas in Japan, no clear correlation between the active job openings-to-applicants ratio and nominal wage growth has been observed since deflation took hold (Chart 12). For example, even after the Bank began with large-scale monetary easing, growth in nominal wages was extremely limited, despite the fact that the active job openings-to-applicants ratio continued to rise more or less by itself up until immediately before the outbreak of the pandemic. One reason for this is that, after entering the deflationary period, many firms in Japan increasingly tended to avoid raising wages as much as they could, and this tendency remained deeply entrenched until very recently. This probably is why the price stability target was not achieved despite improvement in labor market conditions.

Before the bursting of the bubble economy, nominal wage growth in Japan exceeded inflation and real wages rose steadily; however, after the burst, both nominal wage growth and inflation began to decline. Furthermore, after entering the late 1990s, when prices began to fall, nominal wages declined more than prices did and real wages fell -- a situation that continued (Chart 13). These developments suggest that, as firms found it difficult to raise prices due to economic stagnation, and in some cases were forced to cut prices to maintain sales, many of them responded to the decline in selling prices mostly through wage markdowns, i.e., by suppressing wage costs. It seems likely that underlying this act of holding down wages is the Japanese labor-management practice of placing more emphasis on maintaining employment than on wages.

After the Bank implemented large-scale monetary easing in 2013, nominal wages at least stopped declining due to the rapid improvement in labor market conditions, but they did not rise noticeably, as mentioned earlier. This is because, in a low-inflation environment where firms' inflation expectations are very low, firms tend to avoid passing on higher costs to prices

as much as possible.<sup>3</sup> This means that firms do their utmost to avoid raising wages in a low-inflation environment where it is difficult for them to pass on higher costs to prices and thus prices are likely to remain fixed. The fact that this situation persisted seems to have caused the "zero norm" with regard to prices and wages -- the generally accepted idea that prices and wages do not rise -- to take root among firms and households.

The most representative example of the strengthening of this zero norm phenomenon is developments in services prices since the deflationary period. In the services sector, wages generally account for a large share of costs, and there is little room for productivity growth with technology being standardized. Therefore, in an economy where nominal wages continue to rise as a trend, services prices also tend to keep increasing as a trend (Chart 14). In Japan's services sector, however, the share of items for which prices were unchanged became unusually high and the frequency of price revisions became abnormally low after entering the late 1990s (Chart 15). It was only after Japan started to emerge from the pandemic that this situation finally began to disappear. This suggests that the zero norm phenomenon with regard to prices and wages was extremely persistent until recent years, and that the situation is now finally starting to change.

### **C. Two Prerequisites for a Virtuous Cycle between Wages and Prices**

Needless to say, what matters the most for Japan's economy at this point is to dispel the zero norm with regard to prices and wages and thereby achieve a virtuous cycle between wages and prices as soon as possible. To this end, at least the following two conditions are necessary. The first is to return to a situation in which services prices continue to rise steadily. The second is to get to a situation where firms in the manufacturing industry, especially small and medium-sized firms, can smoothly pass on wage hikes to selling prices.

As mentioned, services are generally highly labor-intensive and their productivity growth is modest, and thus the pass-through of wage increases to prices is stronger than in the case of

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<sup>3</sup> Former Under Secretary of the U.S. Treasury John B. Taylor, known for his Taylor rule for policy interest rates, has shown theoretically and empirically that the low-inflation environment that took place in many countries led to a decline in firms' pass-through of cost increases to prices or in their pricing power. For details, see Taylor, J. B., "Low Inflation, Pass-Through, and the Pricing Power of Firms," *European Economic Review* 44 (2000).

goods, which are relatively less labor-intensive, and for which cost increases tend to be absorbed by productivity growth. In fact, in a generally growing economy, services prices tend to rise faster than goods prices (Chart 14). In Japan, however, wages did not rise after entering the late 1990s, and this resulted in a situation where services prices, which should normally rise, barely increased at all. If the second force, i.e., inflationary pressure stemming from wage increases, strengthens in Japan's economy, this should manifest itself above all in the form of higher services prices. In fact, such a tendency can be clearly seen in recent developments in services producer prices (Chart 16).

In contrast, prices of goods overall tend to decline in relative terms because productivity growth tends to be higher than for services. However, goods vary in terms of their production characteristics. For example, standardized parts and intermediate goods that are in most cases produced by small and medium-sized firms are highly labor-intensive, and many of these parts and goods may have relatively little room for productivity improvement. Therefore, if buyers in these industries do not allow suppliers to pass on wage increases to prices, raising wages becomes extremely difficult.

In this regard, some practices in Japan's manufacturing industry have been pointed out. For example, large firms regularly demand price reductions by small and medium-sized firms from which they purchase parts, or else they accept price hikes due to higher raw material prices but reject price hikes based on wage increases, claiming that suppliers should absorb these increases by improving their productivity instead. If purchase prices are reduced or fixed, the most that nominal wages of employees at small and medium-sized firms could rise is in line with productivity growth. These practices therefore suggest that the zero norm with regard to prices and wages has indeed become an established custom in transactions between large firms and small and medium-sized firms. Conversely, if small and medium-sized firms will steadily pass on wage hikes to prices, this essentially means that the zero norm is starting to be dispelled.

#### **D. Sustained Importance of Continuing with Accommodative Monetary Policy**

In Japan, the zero norm -- the generally accepted idea that prices and wages do not rise -- took hold after entering the deflationary period and remained deeply entrenched among firms

and households. Partly because of this, nominal wages did not rise sufficiently despite the substantial improvement in labor market conditions achieved through large-scale monetary easing, and for this reason, the inflation rate did not stabilize at around 2 percent. However, the 2023 annual spring labor-management wage negotiations triggered a wave of wage hikes that is unprecedented in recent times. This suggests that the zero norm with regard to prices and wages, which had almost become written in stone, has finally started to crumble.

Clearly, it was the first force -- i.e., the external shock of global inflation following the pandemic -- that started to dispel this zero norm. However, it should be emphasized that underlying the shift to the second force, i.e., the wave of broad-based wage hikes, is the groundwork laid by the improvement in labor market conditions achieved through patient large-scale monetary easing that had been in effect until recently. This is evidenced by indications of various surveys that recruiting and retaining employees is the primary reason given by many firms for raising wages. In this sense, it is essential for the Bank to maintain the appropriate balance between labor supply and demand through the continuation of its accommodative monetary policy in order to achieve the price stability target of 2 percent.

Thank you.



# Economic Activity, Prices, and Monetary Policy in Japan

*Speech at a Meeting with Local Leaders in Saga*

April 18, 2024

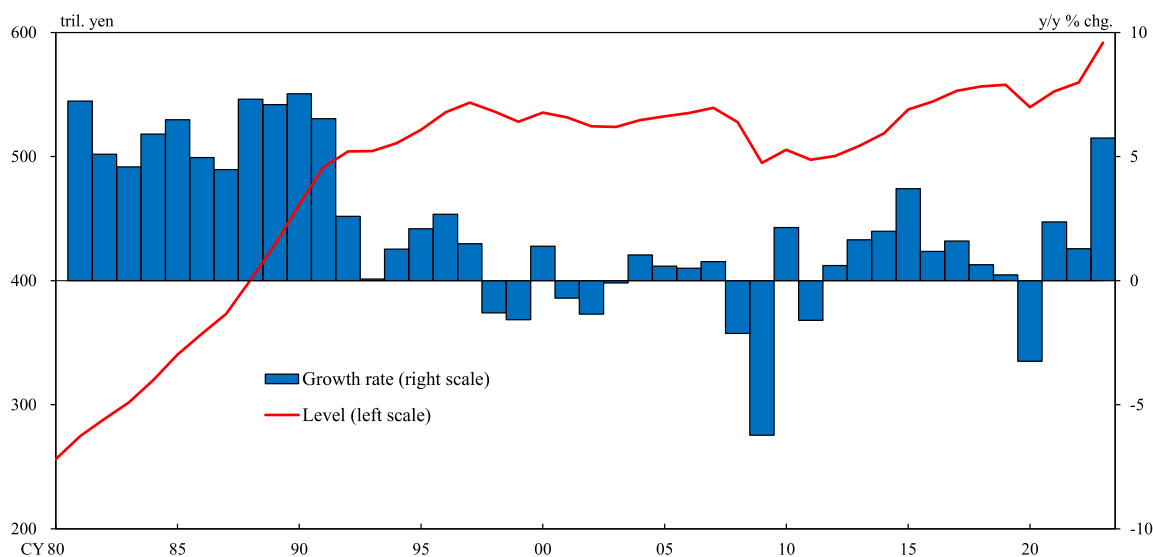
NOGUCHI Asahi

Member of the Policy Board

Bank of Japan

Chart 1

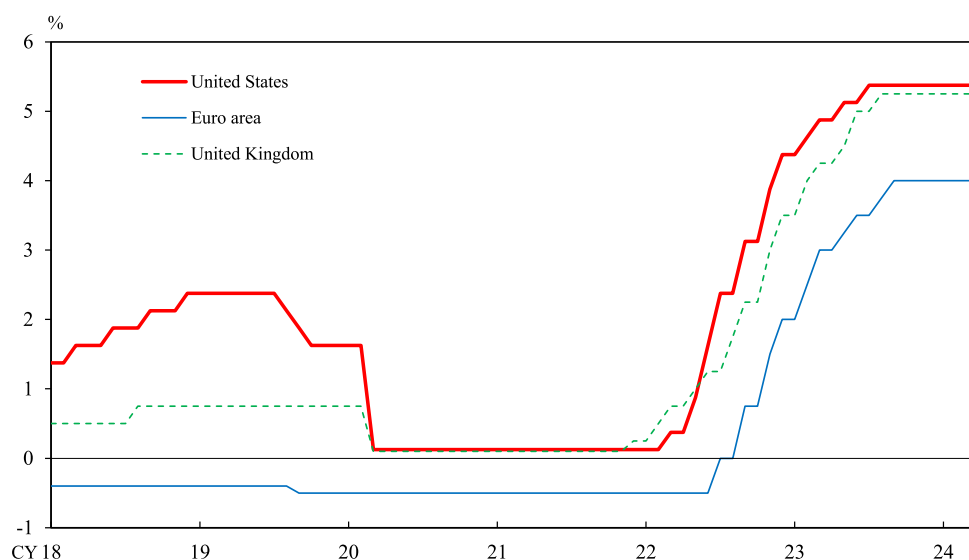
## Nominal GDP



Source: Cabinet Office.

Chart 2

## Policy Interest Rates in the United States and Europe



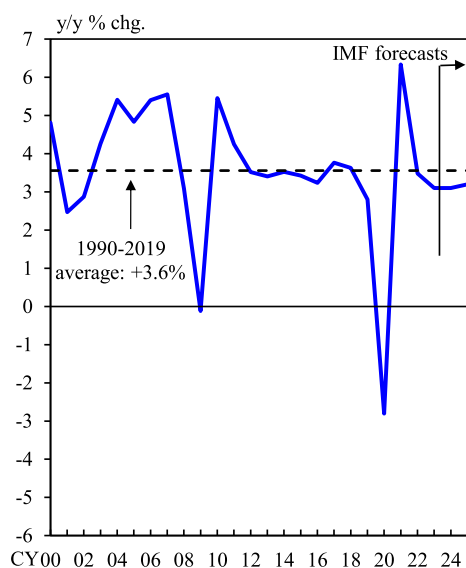
Note: Figures for the United States are the medians of the target ranges for the federal funds rate. Those for the euro area are the rates on the deposit facility.

Sources: BIS; BOE; ECB; FRB.

Chart 3

## IMF Forecasts for Global Growth

### Global Growth Rate



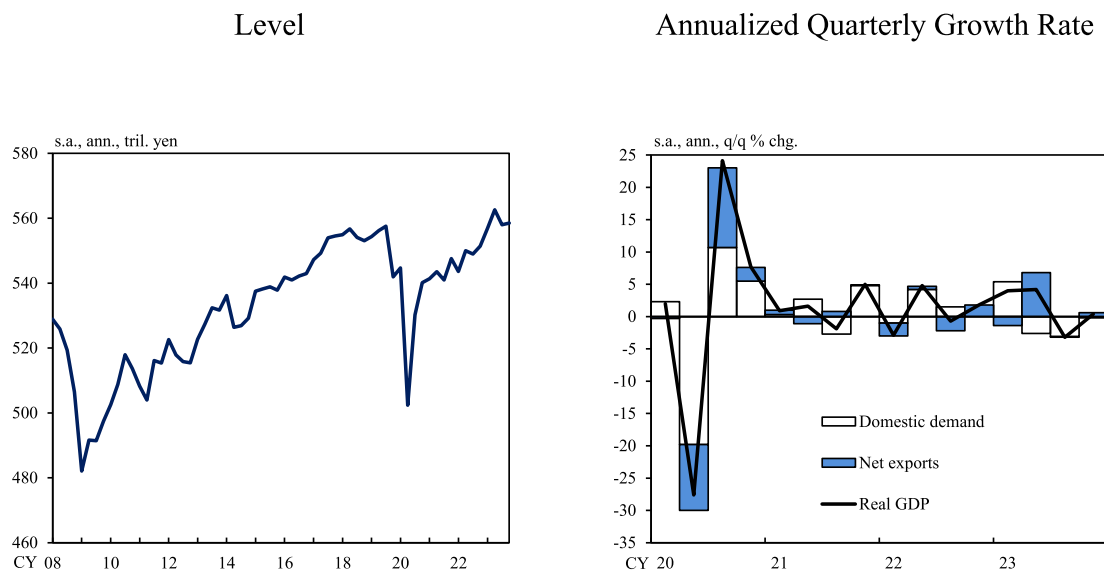
### Major Economies' Growth Rates

|                                          | y/y % chg. |                    |                    |                    |
|------------------------------------------|------------|--------------------|--------------------|--------------------|
|                                          | CY 2022    | CY 2023 [Estimate] | CY 2024 [Forecast] | CY 2025 [Forecast] |
| World                                    | 3.5        | 3.1                | 3.1                | 3.2                |
| Advanced economies                       | 2.6        | 1.6                | 1.5                | 1.8                |
| United States                            | 1.9        | 2.5                | 2.1                | 1.7                |
| Euro area                                | 3.4        | 0.5                | 0.9                | 1.7                |
| United Kingdom                           | 4.3        | 0.5                | 0.6                | 1.6                |
| Japan                                    | 1.0        | 1.9                | 0.9                | 0.8                |
| Emerging market and developing economies | 4.1        | 4.1                | 4.1                | 4.2                |
| China                                    | 3.0        | 5.2                | 4.6                | 4.1                |
| India                                    | 7.2        | 6.7                | 6.5                | 6.5                |
| ASEAN-5                                  | 5.5        | 4.2                | 4.7                | 4.4                |

Note: Figures are as of January 2024.

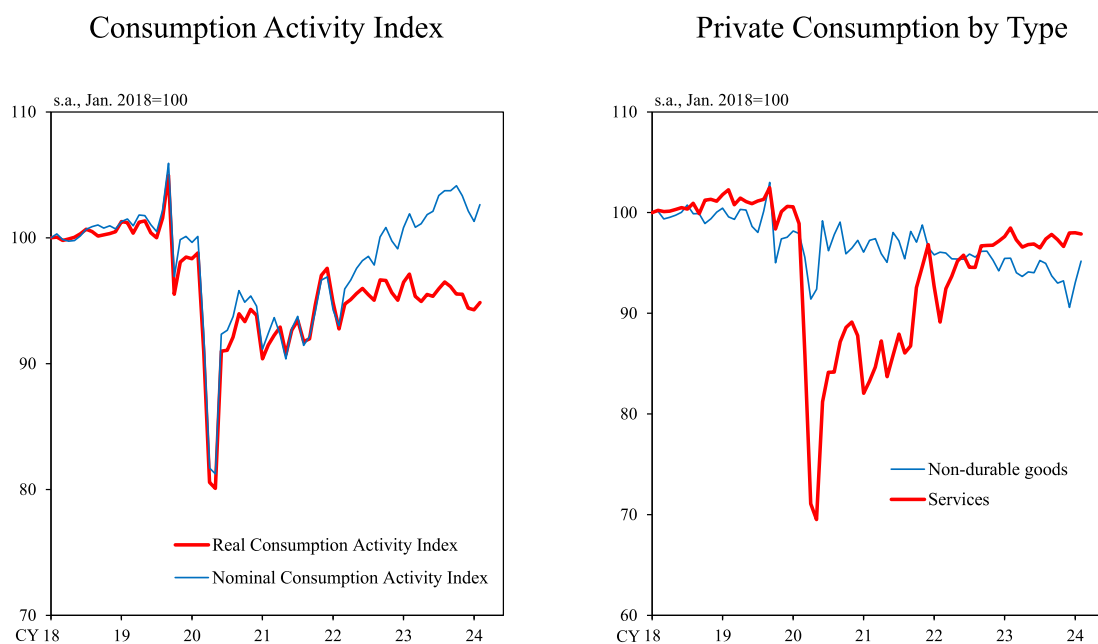
Source: IMF.

# Real GDP



Source: Cabinet Office.

# Real Private Consumption



Notes: 1. In the left panel, figures are travel balance-adjusted.

2. In the right panel, figures are based on the real Consumption Activity Index.

Source: Bank of Japan.



Chart 6

## Consumer Prices

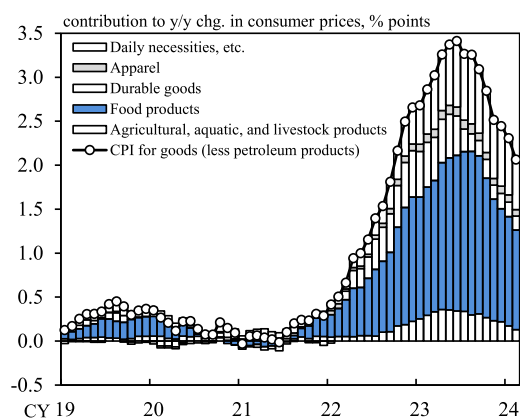
|                                                                | y/y % chg. |      |     |     |       |      |      |      |            |          |
|----------------------------------------------------------------|------------|------|-----|-----|-------|------|------|------|------------|----------|
|                                                                | 22/Q1      | Q2   | Q3  | Q4  | 23/Q1 | Q2   | Q3   | Q4   | 24/January | February |
| CPI for all items                                              | 0.9        | 2.4  | 2.9 | 3.9 | 3.6   | 3.3  | 3.2  | 2.9  | 2.2        | 2.8      |
| Less fresh food                                                | 0.6        | 2.1  | 2.7 | 3.7 | 3.5   | 3.3  | 3.0  | 2.5  | 2.0        | 2.8      |
| Less fresh food and energy                                     | -0.9       | 0.9  | 1.5 | 2.8 | 3.5   | 4.2  | 4.3  | 3.8  | 3.5        | 3.2      |
| Reference: contribution to the CPI (all items less fresh food) |            |      |     |     |       |      |      |      |            |          |
| Energy                                                         | 1.4        | 1.3  | 1.3 | 1.2 | 0.3   | -0.6 | -0.9 | -0.9 | -1.1       | -0.1     |
| Food products                                                  | 0.3        | 0.5  | 0.7 | 1.2 | 1.3   | 1.5  | 1.6  | 1.3  | 1.1        | 1.0      |
| General services                                               | -1.3       | -0.1 | 0.1 | 0.4 | 0.6   | 0.7  | 0.9  | 1.1  | 1.1        | 1.1      |

Source: Ministry of Internal Affairs and Communications.

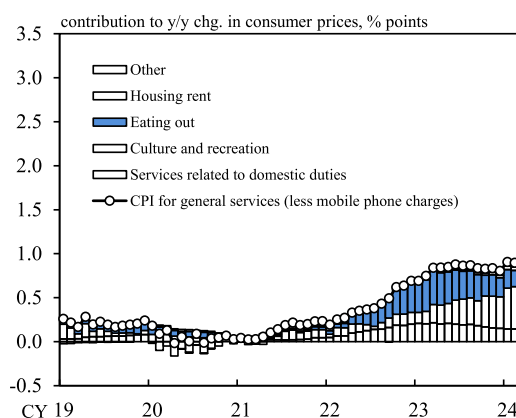
Chart 7

## CPI for Goods and Services

Goods  
(Less Petroleum Products)



General Services  
(Less Mobile Phone Charges)



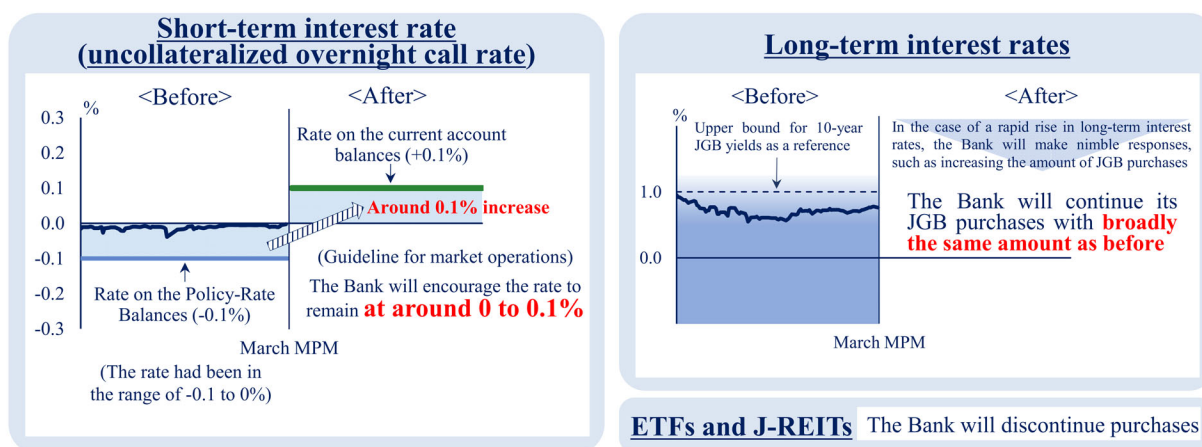
Notes: 1. Figures are the contribution to year-on-year changes in the CPI (less fresh food and energy). Figures are Bank staff estimates and exclude the effects of the consumption tax hike, policies concerning the provision of free education, travel subsidy programs, and the reduction in mobile phone charges.

2. In the right panel, figures for services related to domestic duties include services related to housing repairs and maintenance.

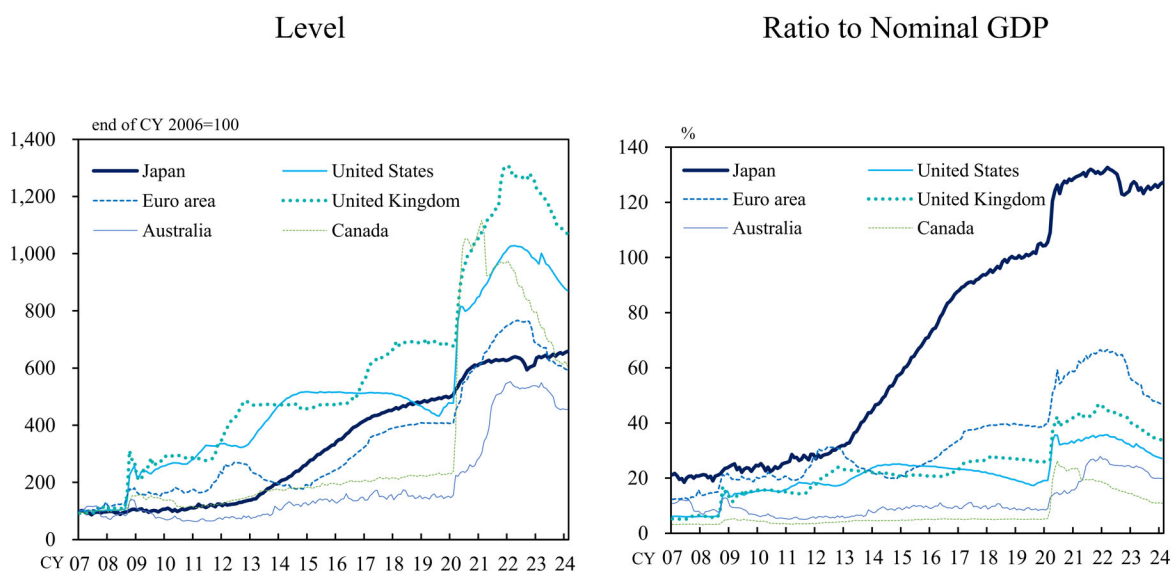
Source: Ministry of Internal Affairs and Communications.

## Changes in the Monetary Policy Framework (March 2024)

- As recent data and anecdotal information have gradually shown that the virtuous cycle between wages and prices has become more solid, the Bank judged **it came in sight that the price stability target of 2 percent would be achieved in a sustainable and stable manner** toward the end of the projection period of the January 2024 Outlook Report. It considers that **its large-scale monetary easing measures have fulfilled their roles**, including the negative interest rate policy and the yield curve control.
- With the price stability target, the Bank will conduct monetary policy as appropriate, **guiding the short-term interest rate as a primary policy tool**, in response to developments in economic activity and prices as well as financial conditions from the perspective of sustainable and stable achievement of the target. Given the current outlook for economic activity and prices, it anticipates that accommodative financial conditions will be maintained for the time being.



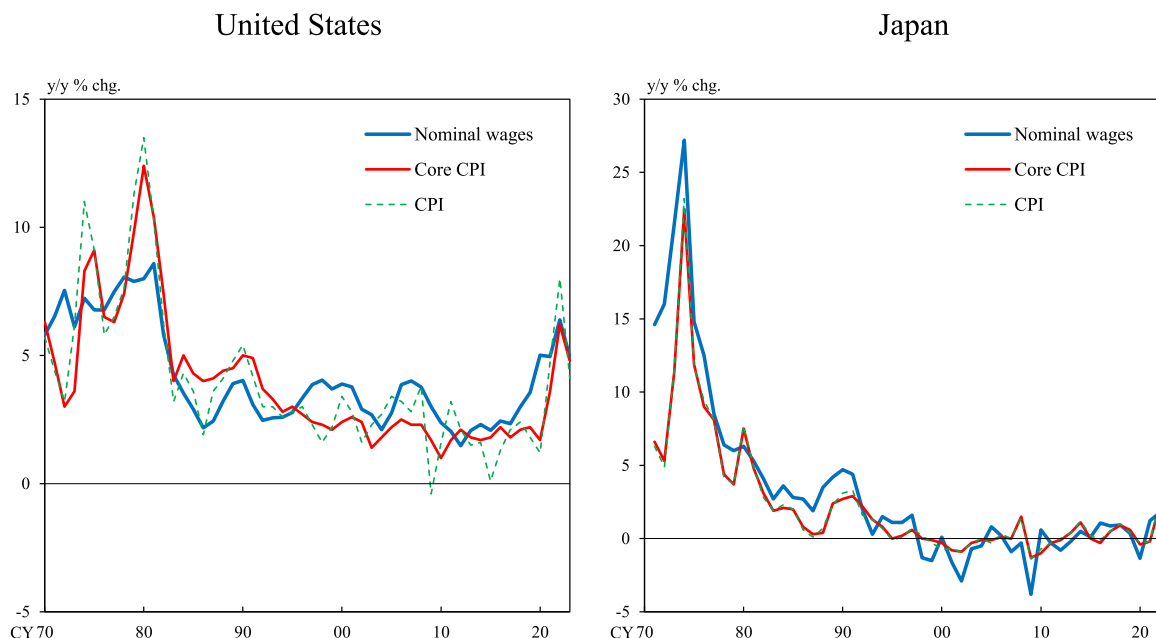
## Major Central Banks' Balance Sheets



Note: Figures for the United Kingdom until September 2014 are for total assets; from October 2014, they are for the sum of the main components of assets.

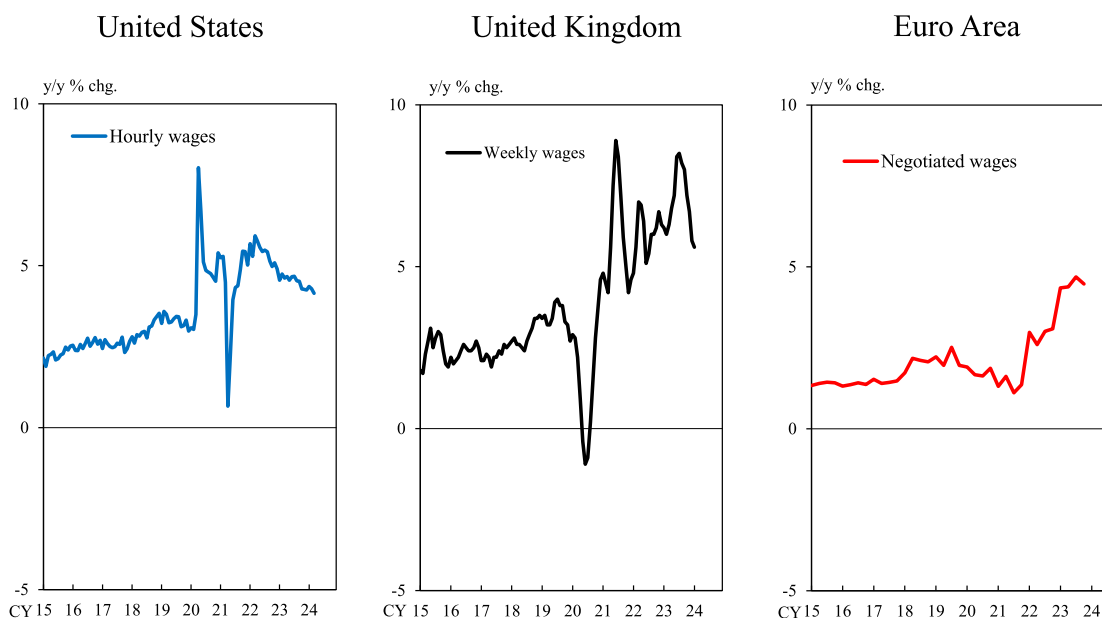
Sources: Data from central banks and statistical authorities; Haver Analytics.

# Nominal Wages and CPI in the United States and Japan



Notes: 1. In the left panel, figures for nominal wages are for average hourly earnings of production and nonsupervisory employees.  
 2. In the right panel, figures for nominal wages are for total cash earnings. Those from 2016 onward are based on continuing observations following the sample revisions. Figures for the CPI and the core CPI exclude the effects of consumption tax hikes.  
 Sources: BLS; Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

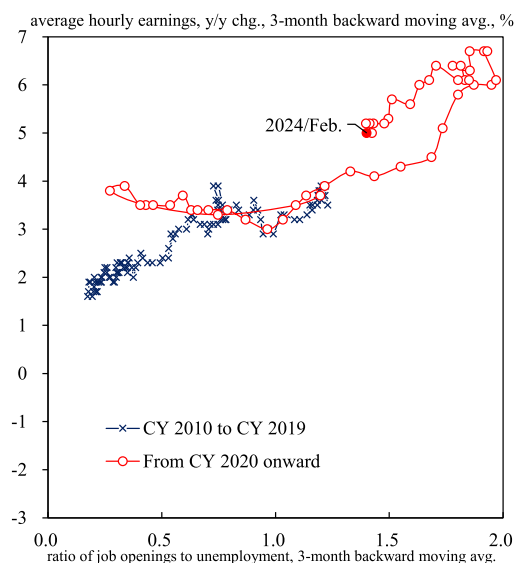
# Nominal Wages in the United States and Europe



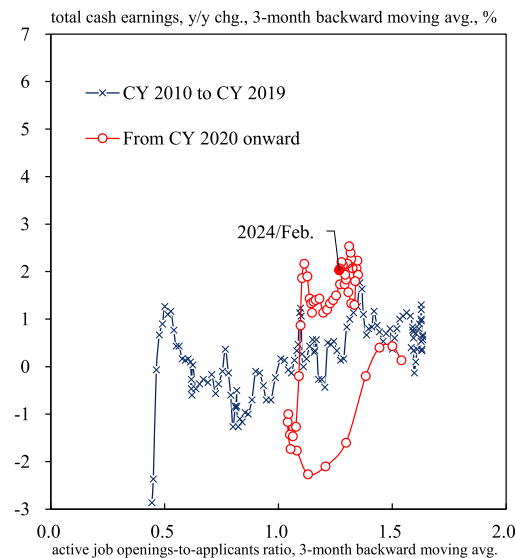
Note: Figures in the middle panel are 3-month backward moving averages.  
 Sources: BLS; ECB; ONS.

# Labor Market Conditions and Wage Growth in the United States and Japan

United States (Average Hourly Earnings)

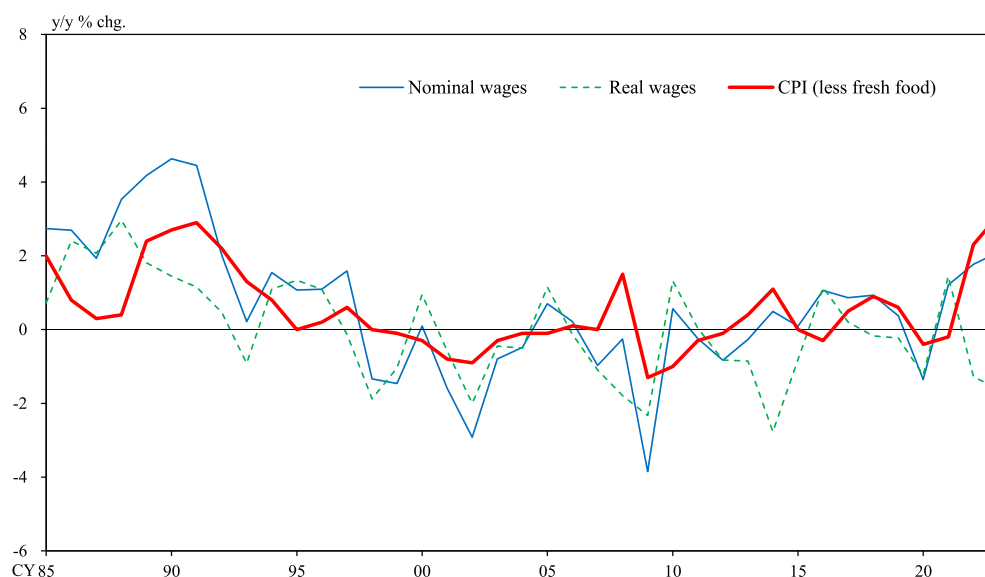


Japan (Total Cash Earnings)



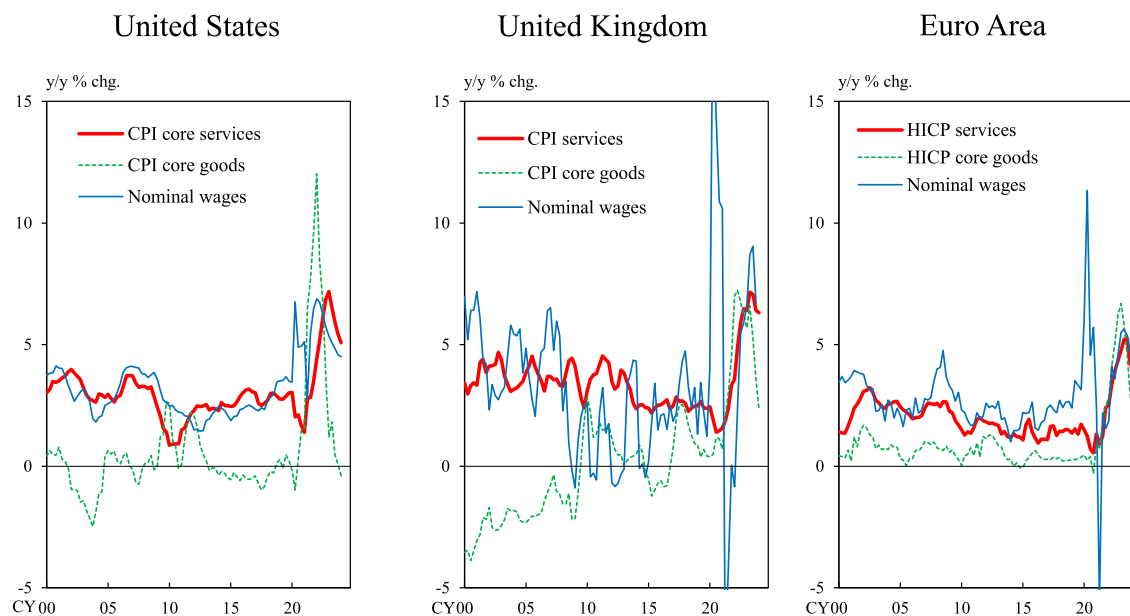
Notes: 1. In the left panel, figures for average hourly earnings are from the Atlanta Fed's Wage Growth Tracker.  
 2. In the right panel, figures for total cash earnings are for all employees. Figures from 2016 onward are based on continuing observations following the sample revisions.  
 Sources: Haver Analytics; Ministry of Health, Labour and Welfare.

## Wages and CPI



Note: Figures for the CPI (less fresh food) exclude the effects of consumption tax hikes. Figures for nominal wages and real wages from 2016 onward are based on continuing observations following the sample revisions.  
 Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

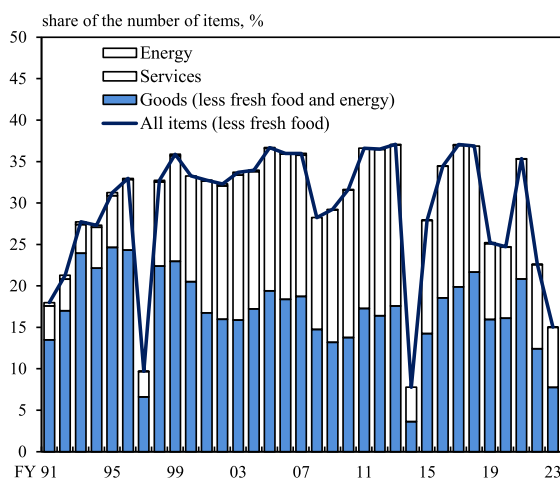
# Nominal Wages, Services Prices, and Goods Prices in the United States and Europe



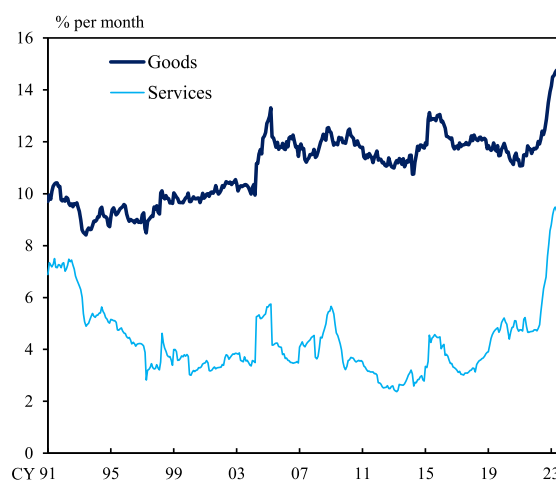
Note: Nominal wages are average hourly earnings. In the left panel, figures for U.S. nominal wages are for production and nonsupervisory employees. Sources: BLS; Haver Analytics.

## Price Revisions

### Share of Items for Which Prices Were Unchanged



### Frequency of Price Revisions

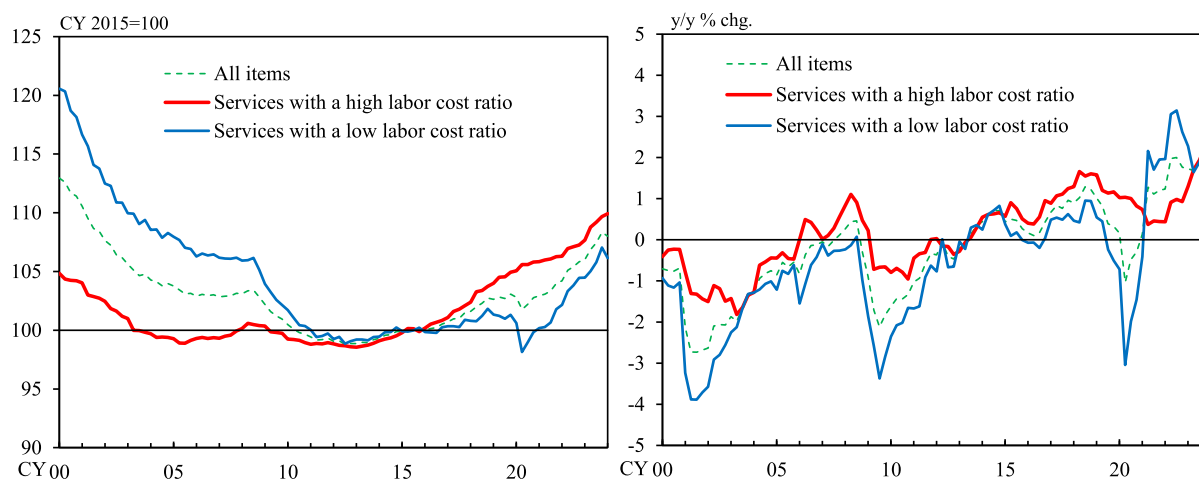


Notes: 1. In the left panel, figures are the share of items for which year-on-year price changes were within plus or minus 0.5 percent.  
2. In the right panel, figures are calculated based on the proportion of cities where the average price of individual items changed from the previous month (12-month backward moving averages). Data exclude fresh food, electricity, manufactured and piped gas, water charges, and housing rent. Temporary price changes due to, for example, consumption tax hikes and special sales are not incorporated.  
Source: Ministry of Internal Affairs and Communications.

# Services Producer Prices

Index

Year-on-Year Change



Notes: 1. Figures exclude the effects of consumption tax hikes.

2. Figures for services are estimated based on the classification in the Bank's research paper "Final Draft of the Rebasing of the Services Producer Price Index to the Base Year 2020" released in February 2024 (available only in Japanese).

Source: Bank of Japan.