

## **“Outlook for Economic Activity and Prices Report The BOJ, More Confident on Getting Out of Deflation”**

### **April 2014 Outlook for Economic Activity and Prices Report**

On April 30, the BOJ issued its Outlook for Economic Activity and Prices Report (Outlook Report) which is issued in April and October every year. This report is prepared by the policy board members estimating the real GDP growth rate and the consumer price index (core), both y-o-y, for about future 2 years which are announced by way of indicating their ranges of forecasts and their median. With this report, it is possible to find out BOJ's analysis of current economic conditions as well as to understand rough direction of their future financial policy.

By taking a look at the Outlook Report beyond FY2014, it can be observed that the BOJ is building its confidence on getting out of deflation as there were no much change of forecasts compared to those announced previously in this January. The BOJ extended its outlook to FY2016 in this report. Its outlook is such that the real GDP growth to remain at lower 1% level based on the expected consumption tax hike to 10% in October 2015, however, it sees the policy target of 2% y-o-y inflation can be achieved with the growth of inflation expectations.

### **Future Outlook & Focus**

As of today, I have expressed my view on the direction of monetary policy that the additional easing would take place during 3Q (Jul. – Sep.) and even earlier depending on the situation, however, after analyzing today's forecasts announced by the BOJ, my expectation of the possible easing within this fiscal year was receded and now I expect the timing to be pushed forward to 4Q (Oct. – Dec.). Even so, I am not fully confident with the logic of the BOJ's forecast which was to revise down its growth estimates (FY2014) and at the same time to keep its price forecast unchanged, which is contradictory.

In order to achieve the inflation target and to lead the Japanese economy out of deflation, it is essential to get out of the deflationary mind-set which has been prevailing nationwide for a long time. However, I do not think the deflationary mind-set would easily change even if the core CPI inflation ratio could stay in positive territory for one to two years. Therefore, I believe that it is necessary to immediately act against any unfavorable incidents for the path to get out of the deflation. Now, where would I focus on, going forward. I do not care if the business environments and core CPI were to trend upward. What I would focus on will be the revised forecast by the BOJ's policy board members and their capability to adjust their monetary policy without delay if the business environments and core CPI were to trend downward.



BOJ Policy Board majority forecasts in Outlook Report

(% y-o-y)

	Real GDP	Core CPI (Excl. fresh food)	Excl. impact of consumption tax hike
FY2013 Est.	+2.2 - +2.3 (+2.2)	+0.8	/
January 2014 forecast	+2.5 - +2.9 (+2.7)	+0.7 - +0.9 (+0.7)	
FY2014 Est.	+0.8 - +1.3 (+1.1)	+3.0 - +3.5 (+3.3)	+1.0 - +1.5 (+1.3)
January 2014 forecast	+0.9 - +1.5 (+1.4)	+2.9 - +3.6 (+3.3)	+0.9 - +1.6 (+1.3)
FY2015 Est.	+1.2 - +1.5 (+1.5)	+1.9 - +2.8 (+2.6)	+1.2 - +2.1 (+1.9)
January 2014 forecast	+1.2 - +1.8 (+1.5)	+1.7 - +2.9 (+2.6)	+1.0 - +2.2 (+1.9)
FY2016 Est.	+1.0 - +1.5 (+1.3)	+2.0 - +3.0 (+2.8)	+1.3 - +2.3 (+2.1)

(Note 1) Majority forecasts represent range of forecasts by board members after discarding highest and lowest value.

(Note 2) Figures in parentheses are median forecasts.

(Note 3) Both real GDP and the core CPI inflation rate are based on y-o-y comparison

(Note 4) These forecasts factor in the proposed consumption tax hike to 10% in October 2015.

(Note 5) Impact of the consumption tax hike to push up core CPI inflation rate are estimated to be +2.0 ppt for FY2014, +0.7ppt for both FY2015 and FY2016, respectively

(Source) Prepared by SMAM based on data of BOJ, Cabinet Office, Japan and Ministry of Affairs & Internal Communications

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