

Introduction

At the press conference today, one of the focused issue was the GDP growth rate for 3Q, because it was virtually the only major indicator announced since last MPM. Interestingly, however, not a small number of the reporters reviewed the issues of monetary policy decision at the pivotal MPM on October 30th, and its medium-term implications.

Assessment of Economy

GDP growth rate for 3Q was -0.8% on annual basis, as readers may already be aware. As a result, our economy recorded negative growth rates in two consecutive quarters.

In spite of its negative image as “technical recession”, however, reactions in domestic markets have been muted. This is probably because we could identify some positive factors behind the aggregate number. For example, growth rate of private consumption turned to be positive after transitory factors including unusual weather disappeared. Moreover, liquidation of inventory made largest negative contribution (by -0.5pp), which could have bright implication in coming quarters.

Regardless of these implicit positive factors, press reporters concentrated their attention to business investments. They actually made negative contributions to GDP in two consecutive quarters, although aggregate amount of corporate profits have been floating around their record high levels, and their investment plans remain bullish.

In reply to the questions, Governor Kuroda confirmed his bullish outlook of business investment. While he admitted that its possible downside risk due to further slowdown of emerging economies deserves careful attention, he reiterated that the gradual recovery remains to be the central scenario thanks to a number of positive elements as discussed above.

In the meantime, some other reporters touched on this issue from longer-term perspectives. They expressed the skeptic views on pro-active minds of senior managers of firms, which may be a source of lackluster developments of business investments as well as slow improvements of wages. They claimed that it would rather be rational for such managers to become cautious because of medium-term pessimism of our domestic economy.

Governor Kuroda explained his positive opinion again, while he indicated a certain degree of agreement with the view that “deflationary mind” have not been completely wiped off. In terms of medium-term trajectory of business investment, Governor Kuroda referred to structural shortage of labor forces in some industries and high vintage of existing capital stock as important upward drivers.

Implications of policy decision in October

In addition to the discussion on economy as above, press reporters interestingly reviewed the policy decision on October 30 and tried to discuss its longer-term implications.

First, some of them asked if QQE could achieve 2% inflation target at all. Readers may like to recall that the BOJ effectively postponed the expected time of the achievement by six months again at last MPM. Governor Kuroda expressed that QQE has shown intended impacts on our economy and prices. He also mentioned that unexpected factors like substantial fall in crude oil prices prevented the achievement of inflation target so far, but their impacts would diminish in the end.

Second, some other press reporter asked whether low rate of actual inflation in recent months contributed to lower expectation of inflation, which may have played a role for slow improvements of wages. In fact, only meaningful part of revision of the policy statement announced today was the reference to downward movements of some indicators of inflation expectation.

Governor Kuroda explained that recent gradual downward movements of some survey-based indicators of inflation expectation as well as BEI in the financial markets were the reason of this minor revision. Nevertheless, he insisted that “underlying inflation” has been on the gradual rising track. According to the accounts by the BOJ, “underlying inflation” could be estimated by broader range of factors. They not only include various measures of inflation, but also pricing power of firms. Governor Kuroda reiterated his view that actual rise in prices of many goods and services have been its evidence.

Risks and normalization of QQE

As a structural issue, a press reporter raised the voice of concern about the side-effects of QQE, when the BOJ is now expected to maintain this unconventional policy with unusually large scale with longer duration of time.

In reaction, Governor Kuroda presented three potential sources of risks, but rejected the concerns altogether. These are 1) technical imitation of JGB purchase, 2) deterioration of the soundness of BOJ's assets, and 3) threat to the stability of financial system.

Governor Kuroda explained that the BOJ would not have concerns about 1) as far as it could achieve the target as expected. In terms of 2), he referred to the fact that the BOJ began consultation with the government for further enhancement of loss reserves on their balance sheet. Finally, Governor Kuroda mentioned that the BOJ would keep monitoring carefully our financial system.

In reply to the follow-up question on the initiative of enhanced loss reserves, Governor Kuroda explained that the BOJ would intend for leveling profits from massive holdings of JGBs and losses from rise in IOER or from reverse repo operations when policy normalization starts.

Author is of course aware that the reference to these factors by Governor Kuroda was only intended to explain the lines of thoughts on the issues raised by press reporters. Nevertheless, it seemed to be one of the rare events that Governor Kuroda refers to the factors that would have significant implications for normalization strategy of QQE, which might imply a possible start of its back-door discussion.

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