

## Introduction:

This afternoon, I was in the studio of Nikkei CNBC to make real-time comments on the press conference by Governor Kuroda, which was transmitted as “live” broadcast for the first time. While the BOJ did not make any policy decision this time, this is an important exercise ahead of the pivotal MPM meeting on April 30 (when the BOJ reviews its own outlook).

I would raise three major points of today’s press conference, as clues for the discussion on additional stimulus.

## Impacts of consumption tax hike

Naturally, many reporters asked Governor Kuroda whether the impacts would be in line with the outlook by the BOJ. Although any “hard” economic indicators for April are not available at this moment, Governor Kuroda insisted several times that anecdotal evidences have been consistent with the BOJ’s scenario so far. In addition, Governor Kuroda implied that the BOJ has been utilizing innovative measures for collecting updated information including POS data from retailers.

Governor Kuroda of course admitted the probability of some negative impacts on consumption during this quarter as the statement suggests. Nevertheless, he reiterated the BOJ’s view that such impacts would be short-lived. Moreover, he explained that impacts on production activities could rather be minimized, probably due to shift to satisfying overseas demands and/or rebuilding of inventory.

All in all, Governor Kuroda expressed the bullish view in terms of the impacts of consumption tax hike, and according to his view, its would have less effects on the policy decision.

## Outlook by corporate sector

In between the MPMs, the results of TANKAN survey have become available. While the evaluations of current economic conditions have improved across the board and the levels of their profits have hit very high levels, private sector economists rather paid attention to cautious outlook by managers of corporations as well as lackluster plans for domestic investments in spite of their levels of profits.

In reply to press reporters, Governor Kuroda insisted the bright side of the results of TANKAN survey this time. He also implied that it would be rather rational for the managers of corporations to become somewhat cautious whenever the current conditions appear to be most favorable. Moreover, he expresses bullish expectations for business investment, as slackness (both in terms of capital and labor) diminishes. During the course of the discussion, Governor Kuroda explained that our “structural” rate of unemployment is around the middle of 3% to which we are now approaching.

Regarding the most recent TANKAN survey, a number of press reporters also raised the issue that expected rate of inflation for the next year by the respondents of the survey is 1.5% on average, which falls short of the targeted rate of inflation. Governor Kuroda insisted, however, the number suggests that managers of corporation have still been under adjustment process of expectation, and referred to the fact that they have already been gradually revised up.

At the time of last April, almost any of us did not expect such significant change in inflation expectation throughout FY2013. Nevertheless, it would still be uncertain whether our inflation expectation would evolve further as Governor Kuroda suggests.

## Macro gap and inflation

Readers of my Notes might be tired of this same topic. Nevertheless, reporters have reasons to raise it this time. Most important reason would be that the BOJ may revise down its expected rate of GDP growth (probably at MPM on April 30 as a regular review of their outlook), in light of weaker than expected growth rate for 4Q last year.

Interestingly, Governor Kuroda implied that the deflation gap (=accumulated discrepancy of actual GDP against potential GDP) may have diminished, according to the BOJ’s estimation. He explained that it is basically estimated by utilization of capital and labor on aggregate basis. At the same time, he mentioned that the BOJ looks at its relationships with some economic indicators (including DIs in TANKAN survey).

In any case, Governor Kuroda’s reply suggests that we could observe higher rate of inflation with the current rate of real GDP, than our cabinet office estimates. If this would be true, slower than expected rate of GDP growth could still be sufficient for the BOJ to achieve the inflation target.

An important hidden part in this line of argument is the dynamics of inflation expectation. As Governor Kuroda reiterated today, the BOJ expects that inflation expectation would continuously improve as the actual rate of inflation becomes higher. Put differently, the BOJ believed in adaptive formation of inflation expectation. On the other hand, many private economists and market players still seems to be skeptic about this idea.

It would be hard to draw any clear conclusion on this debate ex ante. On the one hand, inflation (or deflation) expectation would be sticky, especially for us who have experience of decades-long low inflation (or deflation). On the other hand, recent development of upward revision of regular wages at large corporations, in the middle of surprisingly tightening labor conditions, could have significant impacts on our sentiment.

With this regard, we would like to pay attention to the possible change in the expected relationship between GDP growth rate and inflation rate – effectively, the estimated shape of Philips Curve - as evidenced by the next review of the BOJ’s outlook at the next MPM on April 30.

## Conclusions

When asked if any cautiousness for the first real-time broadcast of press conference, Governor Kuroda replied that he had paid some attention to the choice of color of his necktie. In spite of this light comment, it seemed to me that Governor Kuroda tried to answer every question with clearer message. This might be the source of impression to observers that Governor Kuroda appeared to be somewhat hawkish than the market had thought.

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