

## Introduction

Observers of the press conference today would feel that another round of stimulus becomes modestly distant, because Governor Kuroda maintained his bullish view of our economy for the most part. However, there may be some missing parts of the scenario that could have non-negligible implications.

## Assessment of economy

Most important event in this inter-meeting period was the release of TANKAN survey. The markets expected to hear hints on the focused issues including the corporate's view on emerging economies and their stance on business investments.

The policy statement suggests that overall message of the TANKAN survey was encouraging. Respondents from broad-based industries expressed confidences in the near-term course of corporate profits that have already reached their record-high levels. Therefore, Governor Kuroda maintained his robust prospect of business investment. Moreover, in light of our industry structure, persistent downward trend of global commodity prices supports profits of majority of domestic players through improving terms of trade.

Flip side of the coin is the conditions and views of some manufacturing sectors that are considerably involved in exports and/or FDIs to emerging economies. Consistent with the common dichotomy between non-manufacturing and manufacturing sectors across developed economies, players in manufacturing sectors admitted not only the recent slowdown of activities, but also the growing uncertainties ahead.

Governor Kuroda, however, downplayed the negative scenario. He referred to the fact that manufacturing sectors would only represent 20% of our economy. Moreover, he could still expect further increase in business investment by manufacturing sectors in light of elevated levels of profits.

Another point of debate was resiliency of private consumption. Governor Kuroda reiterated the constructive view that continuous improvement of labor earnings - while he admitted that it is slower than previously thought - could support the gradual and secure increase in consumption expenditures.

In spite of Governor Kuroda's bullish view, we could still see some diversified opinions on the prospects of private consumption. One important reason is the sign of vulnerabilities that brought about negative rate of growth in 2Q. Core element is the earnings as Governor Kuroda mentioned, especially in comparison with the rate of inflation.

## Outlook of inflation

Several reporters raised the prospects of inflation and asked Governor Kuroda about his confidence in achieving 2% target sometime in the first half of FY2016. Their motivation is doubtlessly the negative rate of inflation by core CPI (excl. fresh foods) for August.

Governor Kuroda explained that core CPI inflation has been under considerable downward pressures of commodity prices. And he insisted his view that underlying rate of inflation has been on the upward trend. According to his accounts, underlying inflation could be estimated by a range of elements including 1) inflation expectations, 2) aggregate demand/supply gap and 3) other pieces of information such as pricing power of firms and prospects of nominal wages.

We still have some reasons to feel uncertainties about dynamics of underlying inflation. First of all, weak performance of our aggregate domestic demand this year may have widened the negative GDP gap again. In fact, the BOJ would make downward revision of its GDP forecast for this fiscal year to the level around our potential growth rate. In addition, we are still receiving mixed messages on inflation expectations.

## Additional stimulus

There has been a growing debate about additional stimulus in both domestic and international markets in recent weeks with the background of diversified views on economic outlook as discussed above. It was therefore reasonable for a few reporters openly touched this core topic.

The reporters requested Governor Kuroda's comments with somewhat indirect rhetoric. One of them asked if Governor sees something different in our economy from last October. Governor Kuroda insisted some bright sides of economic activities including better prospects of business investments and labor earnings.

Other reporter asked if the MPM would make downward revision of its outlook at the next MPM, it could pave the way of additional stimulus. Governor Kuroda explained the difference in dynamics between core and underlying inflation, and offered his skeptic views on a "mechanical" link between the revision and the action. These lines of discussion imply that the BOJ has some distance from additional stimulus for the time being.

Looking from broader perspectives, there seem to be several options of monetary policy at this moment. The BOJ could effectively delay the timing of achieving the target, and take wait-and-see stance. Alternatively, the BOJ could conduct additional stimulus. If the BOJ would like to minimize the side-effects, they could present a policy package that consists of modest increases in purchases of broad range of assets.

It is important to note that any of the above options could require some modification of the original idea of QQE. For example, the first option above may make the impression in the market that it would not be consistent with the pro-active nature of QQE, while it appears to be consistent with the BOJ's current view of underlying inflation. The second option above could also make some impression that the BOJ might add the taste of fine-tuning to the management of QQE.

All in all, changing environment of our economy may be bringing the BOJ closer to the point where they would need to modify some original and core features of QQE.

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