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Summary of Opinions at January MPM — Consensus of resiliency

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Introduction

Summary of opinions suggested that majority of the MPM members have become more confident in the resiliency of domestic economic activities, partly thanks to the economic stimulus by the government.

Assessment of economy

First seven lines of comments effectively confirmed the gradual expansion of our economy. Readers may like to remember that total number of the MPM members are nine.

Specifically, several lines of comments insisted the underlying strength of domestic economy, in spite of temporary impacts by a series of natural disasters. Moreover, a couple of them welcomed the economic stimulus measures by the government.

With regard to the implications of overseas economies, several lines of comments admitted that downward impacts could continue for the time being, and maintained the sense of cautiousness about their downside risks. Nevertheless, a line of comment suspected that potential spillover effects would be muted, and the other line of comment highlighted the improvement of global IT cycle.

All in all, as a couple of comments suggested, large majority of the MPM members seemed to have confidence in the economic growth at the pace slightly faster than the potential growth rate.

In contrast, the other two lines of comments expressed the cautious views on domestic economy.

One of them pointed out the weakness of economic indicators since October last year. The other raised the range of structural risk factors, including downside risk of propensity to consume after the consumption tax hike, potential negative spillover from manufacturing to non-manufacturing, and case of downward instability of long-term inflation expectation.

Interestingly, last couple of comments discussed the implications of changing labor market structure. While the full-version of the quarterly economic outlook does not include any special material on this topic, it might have become a focus of discussion at January MPM.

One line of comments welcomed the increase in early retirement by middle-aged workers under the current tight labor condition. It could be beneficial not only for them because they could find the next opportunities smoothly, but also for firms because they could afford to pay more incentive.

The other comment suspected that the introduction of AI and RPA for administrative jobs could reduce the mismatch and prevent the increase in average costs of labor. Apparently this line of argument is relevant for “low-for-longer” phenomenon.

Assessment of prices

In contrast to numerous lines of comments regarding the economy, only five lines of comments referred to the prices.

It should be noted, nevertheless, comments by both schools of thoughts confirmed that the maintenance of positive GDP gap has functioned well in supporting the underlying inflation.

The point of divergence of the views, however, seemed to be the pace or the strength of such effects.

On the one hand, three lines of comments expected that the maintenance of such gap in a persistent manner could gradually accelerate the rate of inflation in coming years. On the other hand, a couple of comments insisted the needs of continuous improvement of nominal wages and of further study of mechanism of inflation.

Discussion on policy

First three lines of comments confirmed the appropriateness of accommodative stance of monetary policy with some bias toward further easing, because of the vigilance against the risk of losing momentum of inflation. This is the tone of voice expressed by the summary text of their quarterly outlook.

Moreover, a line of comment confirmed that our economy would still be in the process of exiting from its longer-term stagnation. It insisted that the BOJ should be ready for the next round of economic recession as a risk scenario, and should further enhance collaboration with the fiscal and growth policies by the government.

Having discussed the policy decision above, members of the MPM focused the issues of side-effects.

Three lines of comments expressed the cautious views. A couple of them raised the impacts on the profits of regional financial institutions, and discussed the side-effects on the non-financial firms that their net borrowings have been shrinking. Moreover, another line of comment suspected that the maintenance of NIRP could rather lower the inflation expectation by way of undermining the growth prospects.

Two other lines of comments argued against these cautious views. One of them claimed that accommodative financial condition has benefited not only the firms by reducing the financing costs, but also the households by improving conditions of employment and earnings.

Other comment referred to the recent practices of commercial banks to introduce the account maintenance fees. It claimed that such practices should be discussed from the viewpoint of appropriate balance between the quality of financial services and the level of fees. It concluded that we should distinguish such discussion from the debates about side-effects of monetary easing.

Interestingly, a couple of comments suggested the needs to conduct another round of review of the monetary policy. As its rationale, one of them emphasized the significance of reviewing accumulated effects and side-effects after long-years of monetary accommodation, and other comment referred to the global wave of discussion on “low-for-longer”.

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