Press conference by Governor Kuroda – Diversification

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Introduction:

The BOJ made downward revision of its views of current economic condition. While the magnitude is marginal again, its implication seems to become larger due to small downward revisions in a consecutive manner. Moreover, growing political voices of concerns against depreciation of JPY have complicated the policy debates, especially in terms of possible additional monetary stimulus.

Another downward revision

In the policy statement, the BOJ revised down its views on industrial production and household consumption. Because it pointed out the adjustment of inventory as a background, the BOJ may understand that weakness in production could continue for the moment. In contrast, the BOJ maintains their views of gradual recovery of household consumption, although they admit that the pace of recovery has diversified across the rage of goods and services.

In spite of these minor but continuous downward revisions of the statement, Governor Kuroda basically maintained his bullish tone of voice at today's press conference. He effectively mentioned that worst may be behind us, and overall economic activities including production and household consumption would return to their previous recovery path in coming months.

Costs and benefits of JPY's depreciation

Much more interesting topic with regard to our economy and economic policy is the growing debate about costs and benefits of JPY's depreciation. Our major press have been circulating large amount of articles that reports the voices of concerns about decreasing real income of households. A number of major political figures including Prime Minister Abe have started to express cautious views. Even the senior persons of major industrial federations warn against side-effects of cheaper Yen.

Overseas observers may like to note the following points: First, line of discussion of the side-effects this time is unique in light of our hysteresis. In the past, corporate managers tended to be concerned about squeezing profits due to worsening terms-of-trade. This time, in contrast, they seem to be fearful about weakening domestic demand due to losing real purchasing power. These are evidenced by most recent TANKAN survey, for example. Non-manufacturing industries rather than material production industries are hit hard. Judgment of input prices was rather downgraded.

Second, official wage statistics show that growth rates of nominal wages across the scale of companies and across the geographic regions have substantially diversified. For example, in July this year, annual growth rate of total wages for workers at companies with 1000+ employees was 6.8%, but for 30 to 99 employees was 3.0% and for 29- was only 0.5%. Because the share of workers at companies with less than 100 employees is about 2/3 of the total workers, this diversification would have important policy implications.

In any case, the voices of concerns about weak JPY attract growing supports by general public and politicians. This may be the reason why Governor Kuroda attended the parliament to answer the questions by politicians, which resulted in a temporary suspension of today's monetary policy meeting. Such unusual event is the first time since 1998.

As I discussed in the previous Notes, I would not think JPY's depreciation is the core of the problem. It would surely bring about some positive effects. Most important ones are, as Governor Kuroda implied, inflating corporate profits which would result in the increase in investments. Recent TANKAN survey shows the results consistent with this positive view.
Rather, more important problems are the obstacles for the benefits of cheap Yen, and the amplifiers of the side-effects. In terms of the former, either overseas shift in production or lost competitiveness may have prevented an increase in gross exports in spite of large depreciation of JPY. In terms of the latter, slow and diversified increase in nominal wages in spite of surge in corporate profits across the scale of companies may have resulted in decrease in real wages for dominant part of workers.

Implication for additional stimulus

As discussed above, the depreciation has worked as a trigger to reveal some structural problems of our economy, in my view. As a matter of fact, however, general public and politicians started to claim that the depreciation is a source of major economic problem, and they seem to think that further rapid depreciation of JPY should be avoided.

In light of such political environment, there emerge several issues. First of all, markets might be concerned about a possible conflict of views between the BOJ and the Cabinet Office, especially from the point of view of overseas observers. Whether the politicians actually support such views or not seem not to be so clear, they have good reasons to claim so before the nationwide election of regional parliament in spring next year in particular.

More important issue would be possible confusing discussion about additional stimulus by the BOJ. If we continue to observe weakness in economic activities that would put the achievement of the inflation target at risk, the BOJ is expected to "adjust" the QQE as committed. If, however, the weakness of our economic recovery would be due to depreciation of JPY as claimed above, additional stimulus could rather aggravate our economic condition through reduction in real income. If this would be the case, general public and politicians might argue against the additional stimulus.

Conclusion:

In spite of concerns expressed at the parliament and the press conference today, Governor Kuroda clings to the idea that QQE should be maintained until the inflation target is stably achieved, with referring to the benefits of cheap JPY. It would be because Governor Kuroda would not like to abandon all the positive effects of QQE at this stage. And at the same time, it would be intended to argue implicitly that maximizing the benefits and mitigating the side-effects of JPY's depreciation would be the job of the government (but not the role of the central bank).

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