Notes on Financial Markets Vol.251

Summary of Opinions at January MPM—Growing confidence

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Introduction

The BOJ decided to raise its policy rate by 0.25% at January MPM. Members indicated confidence in sustainability of the annual wage rise and resilience of the economy against shocks.

Assessment of economy

First three lines of comments, which seem to be those by executive members, confirmed the constructive view of the economy. They assessed that the economy has been on track, and expected faster economic growth rate than its potential.

Moreover, three lines of comments expected the annual wage rise at the rate similar to the previous year, according to broad based information including comments by corporate managers and surveys. One of such comments also referred to the fact that increasing number of firms started to assume continuous rise in wages in their medium-term strategies.

Regarding the consumption expenditure, members expressed various views. A line of comment claimed that positive rate of increase in real wage is crucial to promote consumption. Accordingly, it raised the momentum of wage rise and the risk of higher rate of inflation as key factors. Other line of comment suspected that impacts by consecutive depreciation of JPY has affected negatively.

Interestingly, four other lines of comments discussed the implications of development of the US economy. Three of them expressed the constructive views. One of them highlighted the fact that financial markets remand stabilized after the launch of the new US administration, and observed that the overseas economy maintained gradual growth.

Other couple of comments expressed favorable view of the US economy. One of such comments suggested that the FRB would be in a good position under resilient economy and disinflation. The other comment suspected that the US economy could rather re-accelerate as deceleration in employment may have hit the bottom and the FRB may suspend further rate cut.

In contrast, other line of comment expressed the cautious view that consumption expenditure could be affected by drop in stick prices due to re-acceleration of inflation or further rise in interest rates under high uncertainties of the economic policy.

Assessment of prices

First three lines of comments confirmed the constructive views. One of them expected the achievement of inflation target in later phase of outlook period, as it foresaw the gradual improvement of underlying inflation.

The other such comment also showed confidence in the improvement of underlying inflation according to the information including reports of momentum of wage rises at the branch managers' meeting and surveys suggesting rise in long-term inflation expectation. Moreover, another line of comment referred to labor shortages in some industries as the background of high inflation.

Lastly, the other comment assessed that risks in inflation in both directions remain large, and raised the possibility of stagflation if inflation in the US re-accelerates and trade tensions becomes severe.

Management of monetary policy

First four lines of comments claimed the rationales for policy rate hike at January MPM.

One of such comments assessed that economy and prices have been of track of the outlook, and expressed confidence in the plausibility of the outlook in the future. Other comment confirmed the view that underlying inflation has gradually increased toward the 2% target, and observed that overall view of prices by economic agents has securely improved.

Lastly, one of such comments expressed the view that the decision of rate hike would appear neutral to financial markets as it would not be distant from the average expectations. Readers may like to remember that there had been some press reports ahead of the MPM meeting again that effectively guided the market expectation of policy decision.

Other couple of comments raised benign view on implication of the US economy. One of such comments pointed out certain resiliency of our economy against uncertainties of the US economic policy. Moreover, the other comment referred to potential flexibility of the BOJ's policy, as suspension of rate cut by the FRB would diminish the risk of rapid appreciation of JPY.

Looking ahead, three lines of comments reiterated the idea that the BOJ would adjust the magnitude of monetary easing. One of such comments referred to the fact that real policy rate remains substantially negative. A couple of such comments showed confidence that economy and prices have been on track. The other comment insisted the importance to avoid further depreciation of JPY or financial excess.

Moreover, another comment expressed the view inflation expectation by households and firms have already risen to 2%. It also suggested that the BOJ should monitor carefully the market-based prices to avoid upside risks of inflation.

In contrast, a couple of comments expressed cautious views. One of them warned the risk of over-correction of depreciation of JPY. The other pointed out that profits of SMEs deteriorated due to wage hikes, and claimed that the BOJ needs to confirm the improvement of profits of SMEs and their annual wage rises. Accordingly, the comment insisted that the BOJ should maintain the current policy stance.

Looking further forward, a line of comment proposed that the BOJ should clarify the idea of policy rate and the role of indicators of underlying inflation. The other line of comment expressed the cautious view about indicating pace of policy rate hike or level of terminal rate as the risks in both directions remain high.

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