

Introduction

The BOJ decided to maintain its policy rate at 0.25% at September MPM. Governor Ueda confirmed that our domestic economy has been on track of its outlook, while he referred to downside risks of the overseas economy

Assessment of economy

Governor Ueda confirmed the view that the domestic economy continued to recover moderately. Moreover, the policy statement modestly upgraded the assessment of household consumption. Governor Ueda referred to the recent improvement of the consumption activity indices.

Nevertheless, Governor Ueda explained that potential negative spillover from the overseas economies should be paid attention to. Interestingly, Governor Ueda focused the US economy.

During the Q&A session, many reporters asked the plausibility of soft-landing of the US economy. While Governor Ueda admitted that future course of the US economy could have substantial impacts on our economy, he explained that there would remain considerable uncertainties about the economic outlook of the US and the policy responses by the FRB.

Assessment of prices

Governor Ueda expressed the view that the transfer of higher import prices to domestic prices has been diminishing. However, he explained that there were some signs of transmission from rising wages to service prices.

During the Q&A session, a point of focus was the sustainability of rising wages. Press reporters expressed the skeptic views with reference to the capacity of SMEs.

In reply, Governor Ueda confirmed the constructive view. He explained that both monthly regular wage and summer bonus payment have apparently increased. Moreover, he insisted that the labor shortage has been maintained and the firms could afford to pay higher wages out of high level of profits.

Governor Ueda further pointed out that the BOJ would carefully monitor the wage dynamics and the upward revisions of service prices in coming months, and the discussion of next annual wage revisions.

A few reporters asked whether there was some momentum of higher prices in recent month. In fact, CPI inflation rate in August was somewhat higher than expected.

Governor Ueda explained that major drivers were higher prices of rice and some import goods, which would be normalized in coming months. Nevertheless, he appreciated that rising service prices would suggest the virtuous cycle.

Some other reporters asked the pass-through effect of foreign exchange rate to domestic prices. Readers should note that many of them suspected the potential downward impacts due to recent appreciation of JPY.

Governor Ueda admitted that upward risk of inflation due to higher import prices has diminished, while it remained uncertain whether impacts of depreciation and appreciation of JPY would be symmetry. Readers should remember that growing risk of higher rate of inflation due to rising import prices was one of the reasons for policy rate hike in July.

Policy decision

Governor Ueda confirmed the constructive view of the domestic economy. Moreover, he reiterated the idea that the BOJ would gradually normalize the policy rate, as long as our economy would grow along the path of the outlook.

At the same time, Governor Ueda insisted that the BOJ should pay attention to downside risks to the outlook including those of slowdown of overseas economy (namely the US) and of instability of financial markets.

Furthermore, he explained that the BOJ would take account of their implications for domestic economy when making decision of policy rate hike. He added that the BOJ could maintain some time allowance to review such impacts.

Accordingly, many press reporters tried to clarify the timing of next rate hike. Among all, some of them asked whether the BOJ would postpone the next hike until 2025.

Governor Ueda explained that his comment above would not refer to any specific time frame. He also confirmed that the BOJ would make every policy decision based on a set of incoming data.

Some other reporters raised the issue of neutral policy rate. They seemed to be interested in the highest point of policy rate during the current economic cycle.

Governor Ueda confirmed the view that its precise estimation remained difficult, while the BOJ should make further effort to improve its analysis. He also mentioned that the BOJ could understand it better as the BOJ would monitor the economic impacts of gradually higher policy rate.

Another point of focus at the Q&A session was communication policy. Readers may like to note that both stock prices and JPY rates started to destabilize after the policy rate hike at July MPM. Some of the reporters continued to criticize the BOJ, as they thought the dialogue with the market was not appropriate.

Governor Ueda explained that proper sharing of policy stance could become difficult especially when a central bank changes its course of monetary policy. He referred to the fact that many of the US market participants did not expect very high pace of policy tightening by the FRB in 2022 and 2023.

He also insisted the view that instability of financial market in August was limited in time, and their impacts on domestic economy and financial system were minimal.

Nevertheless, Governor Ueda admitted that the BOJ's policy idea was not well understood by the markets at the time of policy rate hike in July. He also intended to explain more carefully the BOJ's economic outlook and the policy stance in coming months.

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