Notes on Financial Market Vol.273

Key Points for the July Bank of Japan Meeting: Insights from "Soft Data"

July 21, 2026

"Soft Data" Utilized by Central Banks Worldwide

More than two years have passed since the Bank of Japan (BOJ) ended its negative interest rate policy, and the policy rate has been gradually lifted to 1%. In monetary policy, it is generally understood that there is a lag of about one to two years before the effects of policy changes are fully reflected in prices. Therefore, it can be said that Japan has now entered a phase where not only the policy rate has reached the lower bound of the neutral rate (considered to be in the 0.9%–2.5% range), but also where the effects of past rate hikes are starting to materialize in inflation (1).

Going forward, monetary policy management will be conducted based on projections for the economy and inflation one to two years ahead, while closely monitoring such effects. In other words, a forward-looking perspective will become ever more important. In this context, "soft data"—information on household and corporate sentiment and inflation expectations—plays a vital role. Unlike conventional "hard data" such as GDP or inflation figures, soft data are timely and have leading characteristics. In practice, there have been instances in various central banks and regions where policy changes were decided based on soft data even before the release of hard data.

Specifically, there are two cases:

① Interpreting soft data as a signal of potential undershooting of future inflation, and responding with monetary easing in reaction to the deterioration of sentiment indicators, and

② Interpreting soft data as a signal of potential overshooting of future inflation, and tightening policy in response to rising inflation expectations.

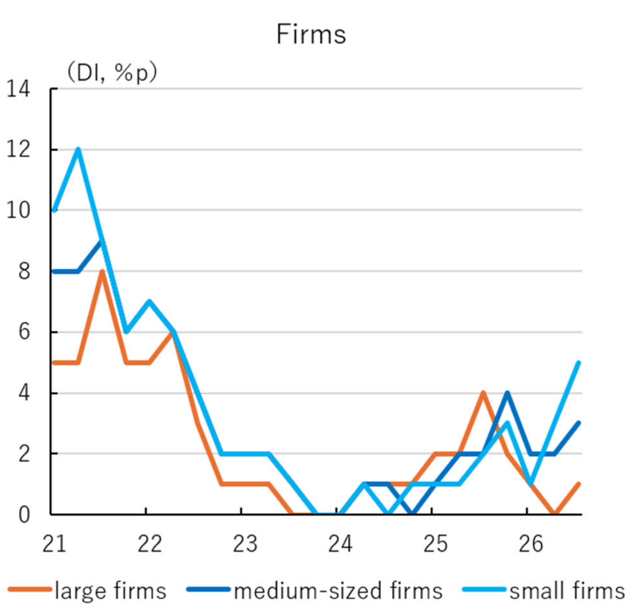
In advanced economies in recent years, pattern ① has often been observed, partly in response to financial stability concerns, while pattern ② tends to be limited to situations where significant impacts on the exchange rate or capital flows are evident (2).

Recent Trends Shown by Soft Data in Japan

What is the current situation indicated by soft data in Japan? July is an important month as various soft data are released on a quarterly basis.

First, the Senior Loan Officer Opinion Survey on Bank Lending Practices at Large Japanese Banks (published 7/17) indicates that banks' lending stance (credit standards) toward firms became more proactive, supported by an improved economic outlook, whereas lending to households turned net tightening for the first time since the survey began in 2000 (Chart 1). While rising real estate prices likely played a role on the household side, past rate hikes appear—at least from the perspective of banks' lending attitudes—to have had contrasting effects across corporate and household segments.

Chart 1: DI for Credit Standards at Large Banks



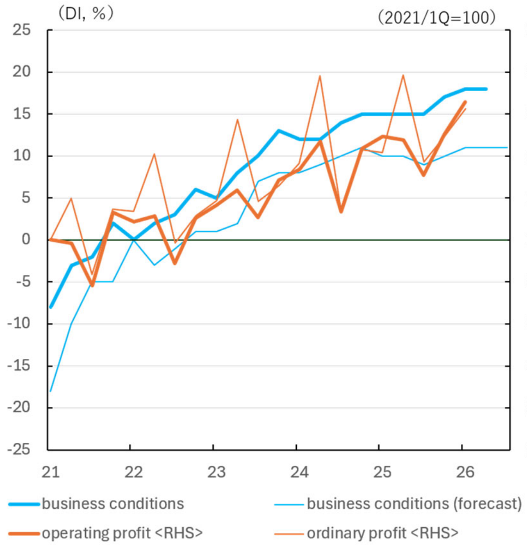
Source: Compiled by Nomura Research Institute based on the Bank of Japan "Senior Loan Officer Opinion Survey on Bank Lending Practices at Large Japanese Banks"

Corporate sentiment, as assessed in the "TANKAN" (published 7/1, (3)), indicates that financial conditions remain stable and accommodative, as funding is perceived to be "easy." While the relative weakness of small and micro enterprises remains a concern, overall corporate sentiment has largely avoided further deterioration and is showing either stability or narrowing of negative growth compared to three months ago (see Chart 2).

Bank of Japan's "Regional Economic Report" (published 7/9) points to some negative effects from the Iran situation, but also notes that demand for AI-related products is supporting exports, production, and capital investment.

Turning to household sentiment, the "Opinion Survey" (published 7/16, (4)) shows that indicators of sentiment and living conditions have deteriorated further. This may partly be due to the previous survey period failing to fully price in worsening conditions in Iran. The "Economy Watchers Survey (Household Activity)" (published 7/8) rebounded somewhat in May after a sharp drop in April, but declined slightly again in June, mainly driven by lower figures in retail and dining. Thus, household sentiment continues to be weak, requiring close attention to whether caution may extend to spending on consumption and housing investment (see Chart 3).

Chart 2: Business Conditions and Profits



Source: Compiled by Nomura Research Institute based on the Bank of Japan "TANKAN," Ministry of Finance "Financial Statements Statistics of Corporations by Industry"

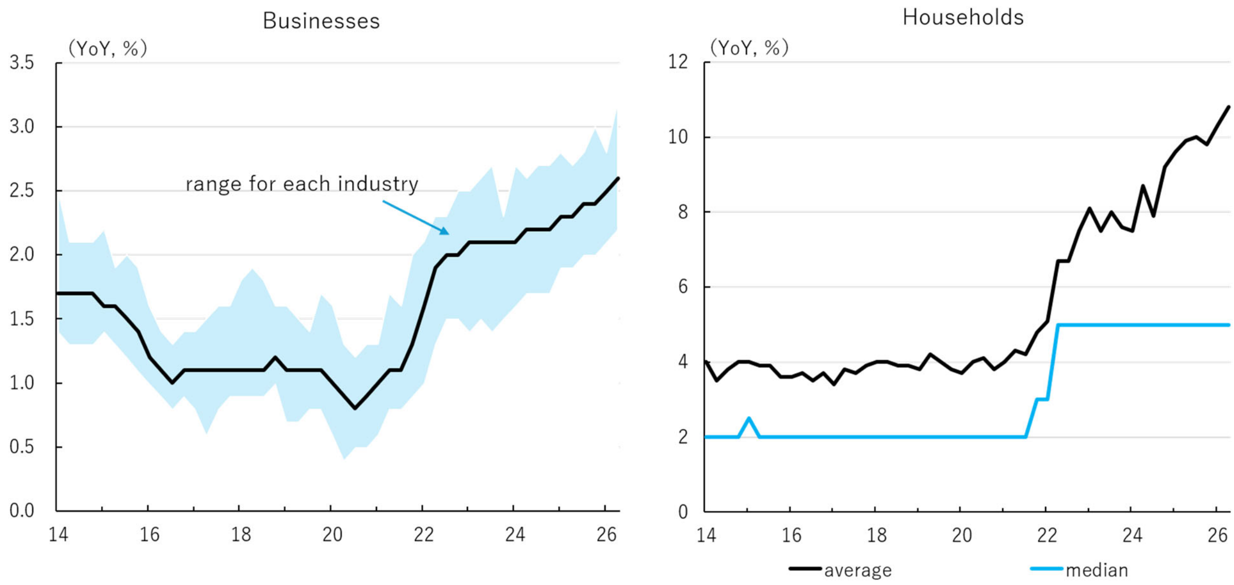
Chart 3: Household Sentiment Indicators and Residential Investment in GDP

Source: Compiled by Nomura Research Institute based on the Bank of Japan "Opinion Survey" and Cabinet Office "SNA (National Accounts of Japan)"

Of particular note is the continued rise in medium- to long-term inflation expectations among both companies ("TANKAN") and households ("Opinion Survey"), which have reached record highs since tracking began (see Chart 4). Amidst ongoing labor shortages due to demographics, sharp yen depreciation, and increased import prices in recent years have had a swifter and stronger pass-through to inflation than before (5). One notable change is how businesses are becoming more proactive in their pricing strategies (6).

Notably, around 80% of households cite "recent price increases" as their rationale for expecting prices to rise over the next five years. This suggests that "adaptive expectations," where actual inflation has a direct influence on expectations, remain strong in Japan (7).

Chart 4: Medium- to Long-term Expected Inflation Rate (Five Years Ahead) for Businesses and Households



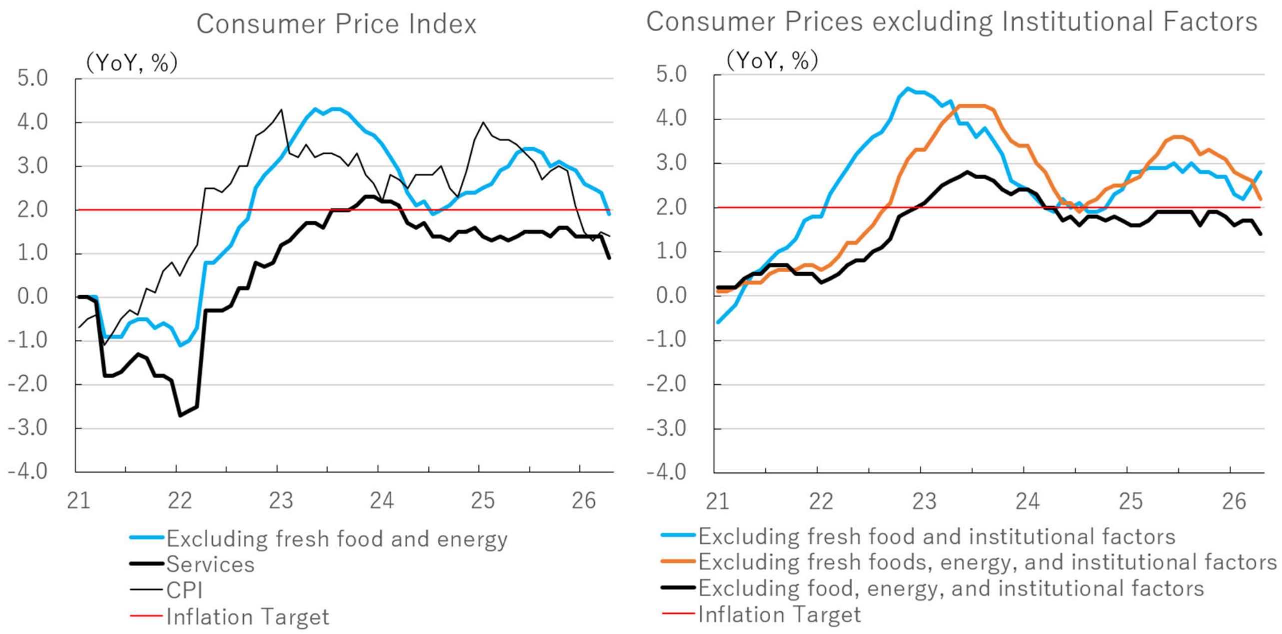
Source: Compiled by Nomura Research Institute based on the Bank of Japan “TANKAN” and “Opinion Survey”

The Need for Enhanced Central Bank Communication in Interpreting Soft Data

The soft data examined here clarify the contrast between a relatively robust corporate sector and a fragile household sector. While household weakness may persist for the time being, inflation expectations continue to rise. Given these circumstances, a scenario in which gradual rate hikes continue—but not to an extent that would overly suppress domestic demand—seems most likely.

Soft data have several challenges: they are subject to "noise" from temporary shocks or respondent biases, have large variances, and may be difficult to interpret when they diverge from hard data. For example, while inflation expectations have been rising, the actual rise in consumer prices - a hard data point - has been decelerating (see Chart 5). The divergence between hard and soft data complicates interpretation and communication.

Chart 5: Inflation rates



Source: Compiled by Nomura Research Institute based on statistics from the Statistics Bureau of Japan "Consumer Price Index" and the Bank of Japan "Indicators for Core CPI"

To address such issues, it is essential for central banks to draw on a wide array of soft data, and to transparently and plainly explain both the predictive value and signaling functions of these data. It is also important to confirm, wherever possible, if soft data are subsequently validated by hard data and to clarify the reversibility of policy should conditions change swiftly. If projections or scenarios released by the central bank are influenced by these data, it is helpful to clearly communicate this as well.

Essentially, this forms part of central bank communication: clarifying the policy reaction function—what is being monitored, when, and for whose benefit—to guide expectations effectively.

In fact, the BOJ's "Opinion Survey on the General Public's Mindset and Behavior" also polls households on their views of the BOJ's communication. The proportion of households responding that the BOJ's explanations are "difficult to understand" has steadily declined over the last 20 years (from 60.5% in June 2006 to 56.1% in June 2016, and to 49.3% in June 2026). Conversely, awareness of the price stability target, - which was 36.9% in the first survey after its introduction in September 2013 - has fallen to 21.1% as of June 2026. If the central bank wants to shape expectations, raising awareness of its goals is a necessary first step.

At the upcoming July policy meeting, new projections for the economy and prices will be released. We should pay close attention to whether there are any changes in the BOJ's communication strategies.

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References

(1) The Bank of Japan had indicated the natural rate of interest (natural interest rate) to be approximately −1.0% to +0.5% as of 2023/Q1, but following a re-estimation as of 2025/Q3 it was revised to a range of about −0.9% to +0.5%. The neutral rate is presented as that range plus the 2% price stability target.

Monetary Affairs Department, "Developments in the Natural Rate of Interest and the Assessment of the Degree of Monetary Accommodation" (March 2026), Bank of Japan Review, 2026-E-4
https://www.boj.or.jp/en/research/wps_rev/rev_2026/data/rev26e04a.pdf

(2) Specifically, as examples of case ①, there were rate cuts and quantitative easing by the Bank of England in June 2016, by the Federal Reserve in July–October 2019, and by the ECB in March–April 2025; an analogous example of Bank of Japan action is the pandemic response in March 2020. As examples of case ②, the emergency rate hike by the Banco de México in February 2016 and rate hikes by several central banks in South America and by Sveriges Riksbank in 2010–2011 can be cited.

(3) The survey period was May 28–June 30, 2026.

https://www.boj.or.jp/en/statistics/tk/gaiyo/2026/tka2606.pdf

(4) The survey period was May 7–June 9, 2026.

https://www.boj.or.jp/en/research/o_survey/data/ishiki2607.pdf

(5) Tomoyuki Yagi, Yoshiyuki Kurachi, Masato Takahashi, Kotone Yamada, Hiroshi Kawada, "Pass-Through of Cost-Push Pressures to Consumer Prices" (September 2022), Bank of Japan Working Paper Series, No. 22-E-17
https://www.boj.or.jp/research/wps_rev/wps_2022/data/wp22j16.p

(6) Bank of Japan, "Outlook for Economic Activity and Prices" (BOX 3), "Pass-through of Import Price Increases to Domestic Prices" (January 2026)
https://www.boj.or.jp/en/mopo/outlook/gor2601b.pdf

(7) Bank of Japan, "Regional Economic Report — 'Sakura Report' — (Supplement Series) Changes in Pricing Behavior of Consumption-Related Regional Firms and Price Revision Policies for FY2026" (May 2026)
https://www.boj.or.jp/research/brp/rer/data/rerb260515a.pdf (in Japanese)

(8) The Bank of Japan explains that expected inflation is formed by two elements: (i) a forward-looking component arising from the central bank's price stability target, and (ii) an adaptive component that is influenced by realized inflation.

Kousuke Nishino, Hiroki Yamamoto, Jun Kitahara, Takashi Nagahata, "Supplementary Paper Series for the "Comprehensive Assessment" (1): Developments in Inflation Expectations over the Three Years since the Introduction of Quantitative and Qualitative Monetary Easing (QQE)'" (October 2016), Bank of Japan Review, 2016-E-13
https://www.boj.or.jp/en/research/wps_rev/rev_2016/data/rev16e13.pdf