

Investment Climate: “Inflation” and “Monetary Policy”

In general, there is a tendency that prices will rise (“Inflation”) in the economic growth phase and on the other hand, prices will fall (“Deflation”) when economy is subdued. This is why prices is called “temperature of economy” time to time. The ideal “temperature” should not be too high or too low. Central banks of each nations are managing their “Monetary Policy” by controlling policy rate in order to keep suitable economic temperatures. We would like to think over “Inflation” and “Monetary Policy” in this report.

Point 1

Current status of “Inflation” in Japan

On the way to overcome deflation, led by unprecedented monetary easing

- In Japan, after 1999, so called deflationary environment continued with prices trending down in line with sluggish economy. BOJ tried to lift the Japanese economy back eventually leading to price rise by implementing monetary easing through interest rate cuts and purchase of JGBs. However, it was not easy for the Japanese economy to come out of deflation.
- New BOJ under Governor Kuroda begun with the start of Abenomics (the economic policies advocated by Prime Minister Shinzo Abe) which enhanced monetary easing by introducing negative interest rate etc. Consequently prices (excluding fresh food and energy) has been gradually rising.

Point 2

Are we entering into phase of “Inflation” ?

Prices of daily goods are rising

- Prices of daily goods around us are gradually rising. For example, eggs which are essential to meals, rose +17% in the past 3 years (from May 2013 to May 2016).
- BOJ aims at stabilizing prices at around 2%. We expect trend of “Inflation” to be moderate but sustainable, as BOJ is likely to maintain accommodative stance in future due to its announcement of new monetary framework in September 2016.

Future Outlook

Moderate “Inflation” and accommodative “Monetary Policy” is expected to continue in major countries

- In the other major countries, (i) US is in the phase of rising interest rate, though at a moderate pace of 1 or 2 times a year and (ii) Europe appears to continue accommodative monetary policy with negative interest rate like Japan. Under current accommodative “Monetary Policy” worldwide, global economy is expected to experience somewhat moderate “Inflation” and economic expansion going forward.
- In Japan, household financial assets will not grow by just putting money in a bank deposit because of low interest rate affected by negative interest rate policy. We need to look for assets other than bank deposit in order to build up assets, as bank deposits will devalue under moderate trend of “Inflation”.

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