Abenomics Chronicles 2018

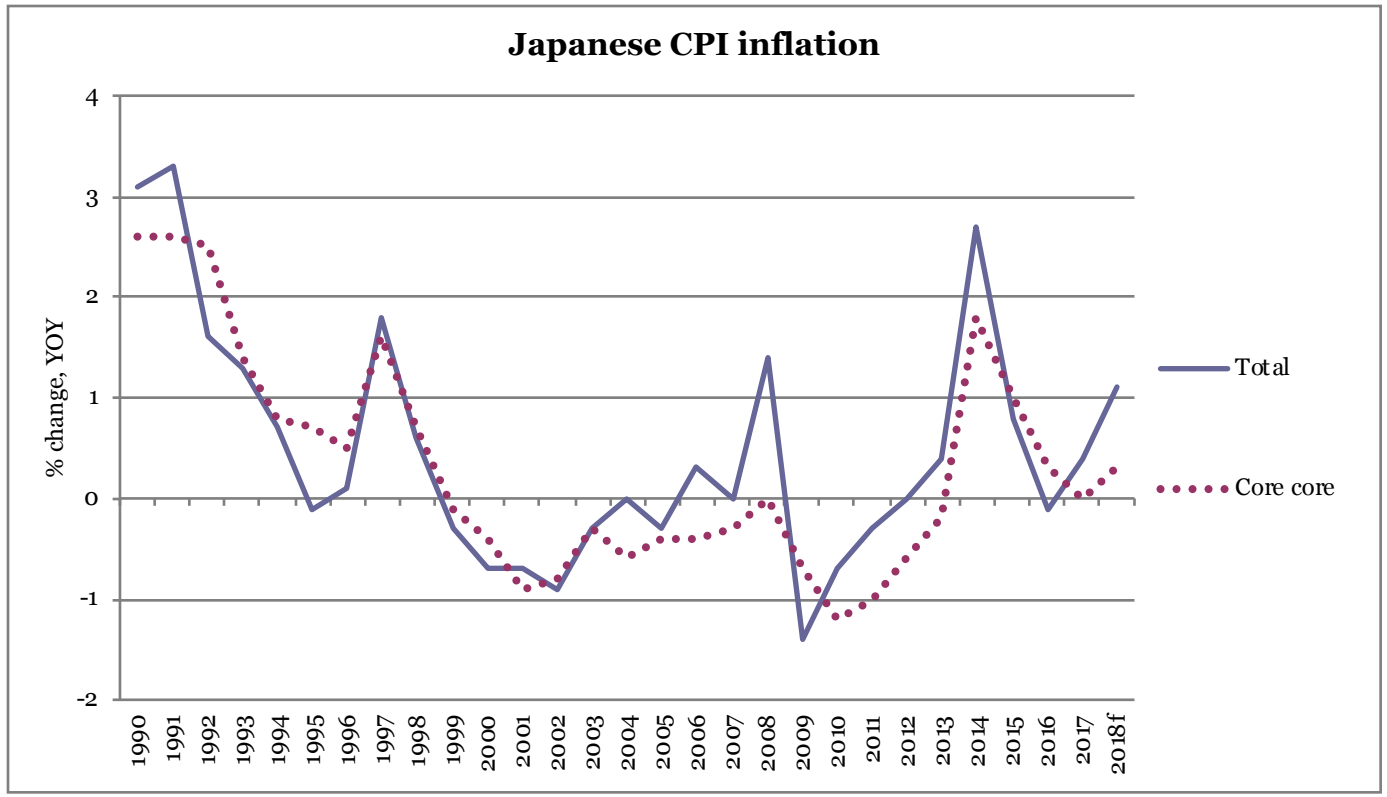
Discontent in the lands of Quantitative Easing

Richard P. Mattione

Prepared for the Harvard Program on International Financial Systems
Washington DC

October 2018

Domestic inflation: The elusive 2%

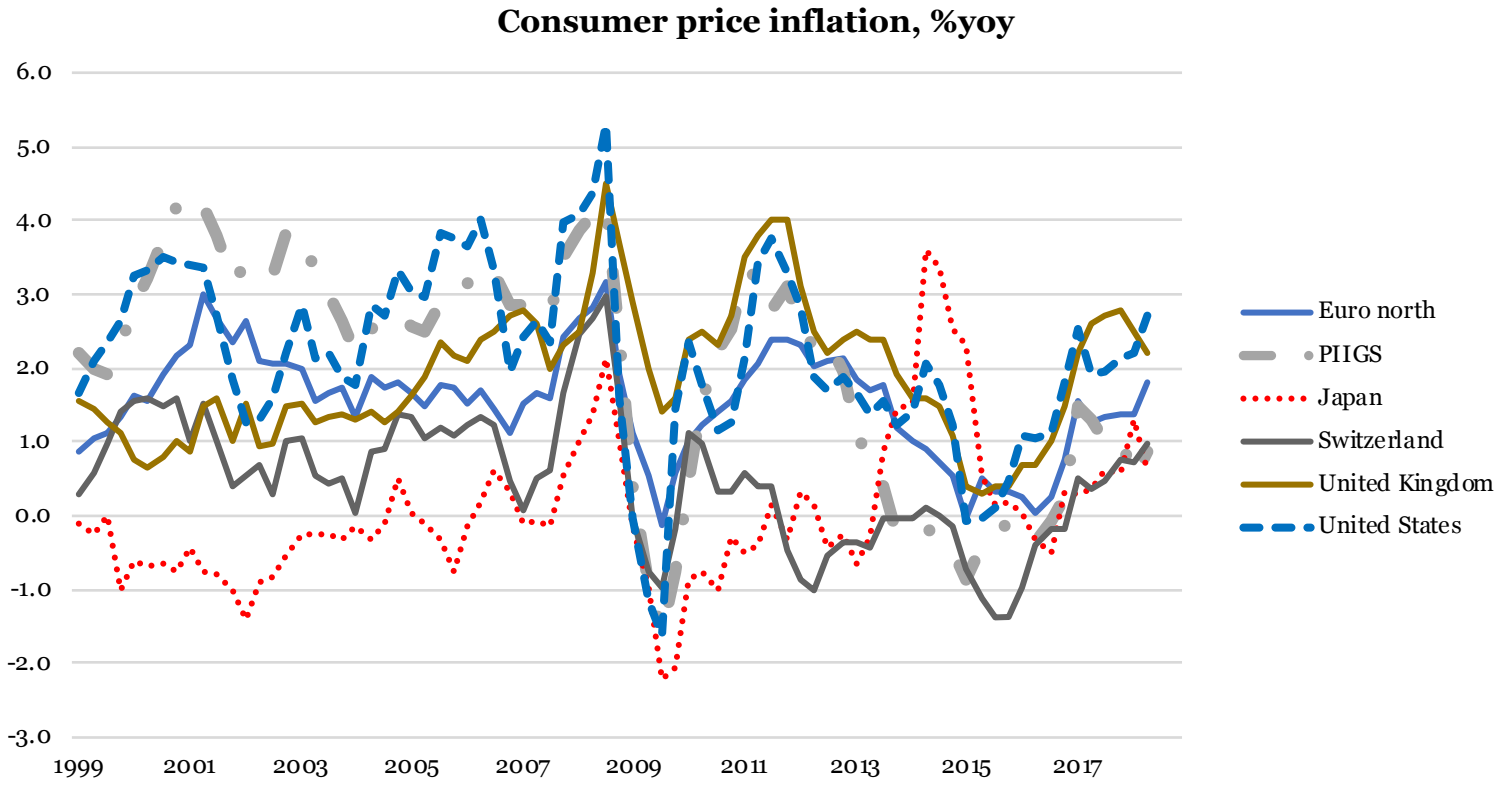


Bank of Japan,, author's calculations

The highest number in a decade without consumption tax effects

Is 1% enough to declare monetary policy victory?

Global inflation: 2% not so elusive



World Bank, author's calculations

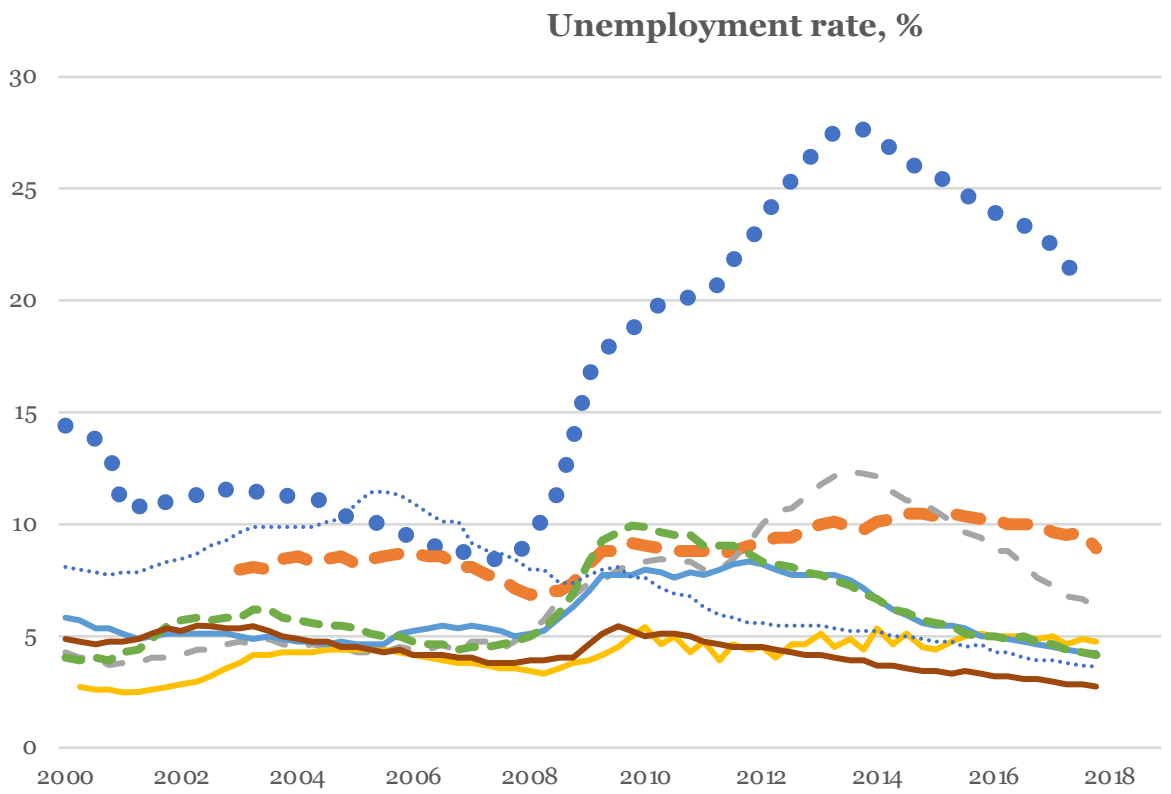
Depending on measure, U.S. has spent most of the last year at or above target

United Kingdom also there

North of the Eurozone getting close

Even PIIGS of the Eurozone running positive

Labor markets getting tight



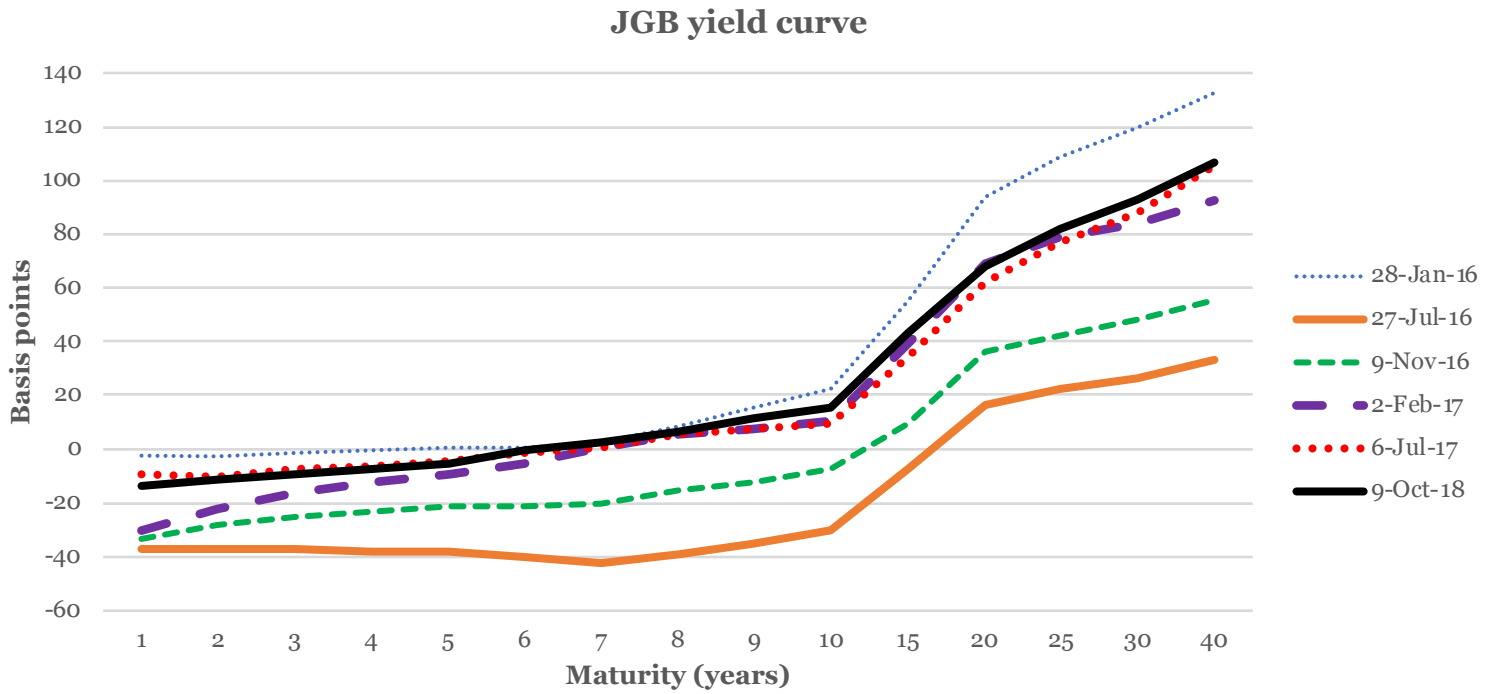
OECD

Close to full employment in Japan, US, Germany

Close to historically tight in best of PIIGS (Ireland)

Room for improvement in PIIGS laggards

Plus or minus a few BPs in 10 year JGBs…



Bank of Japan

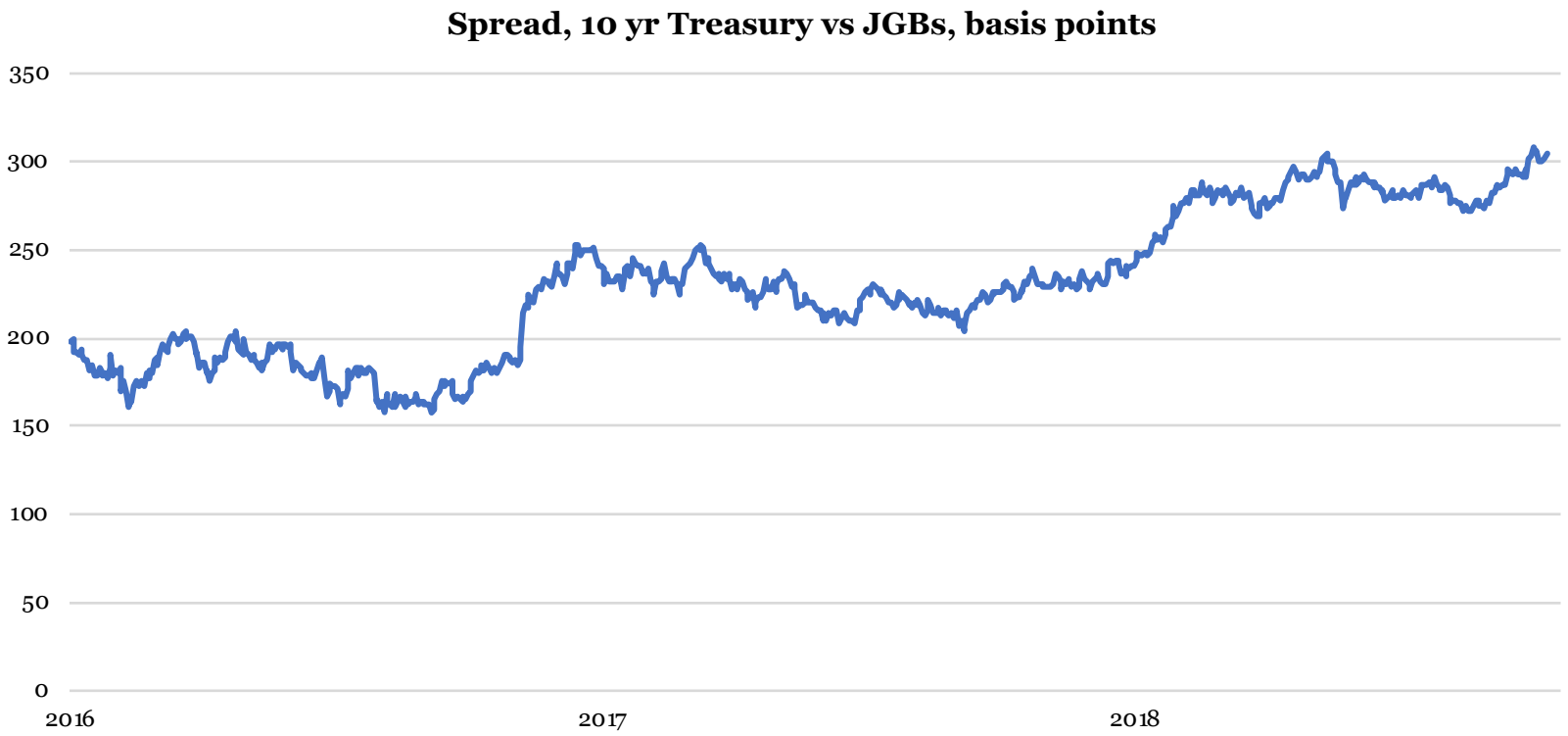
Yields at maturities 10 years or greater lower than before QQE

BoJ intervention band for 10 year JGBs has increased from 10 bps to 20 bps

Actual yields moved from 5 bps to 15 bps over last 3 months

Hard to see much movement over last 18 months between 5 and 20 year maturities

But quite a jump in Treasury-JGB spreads



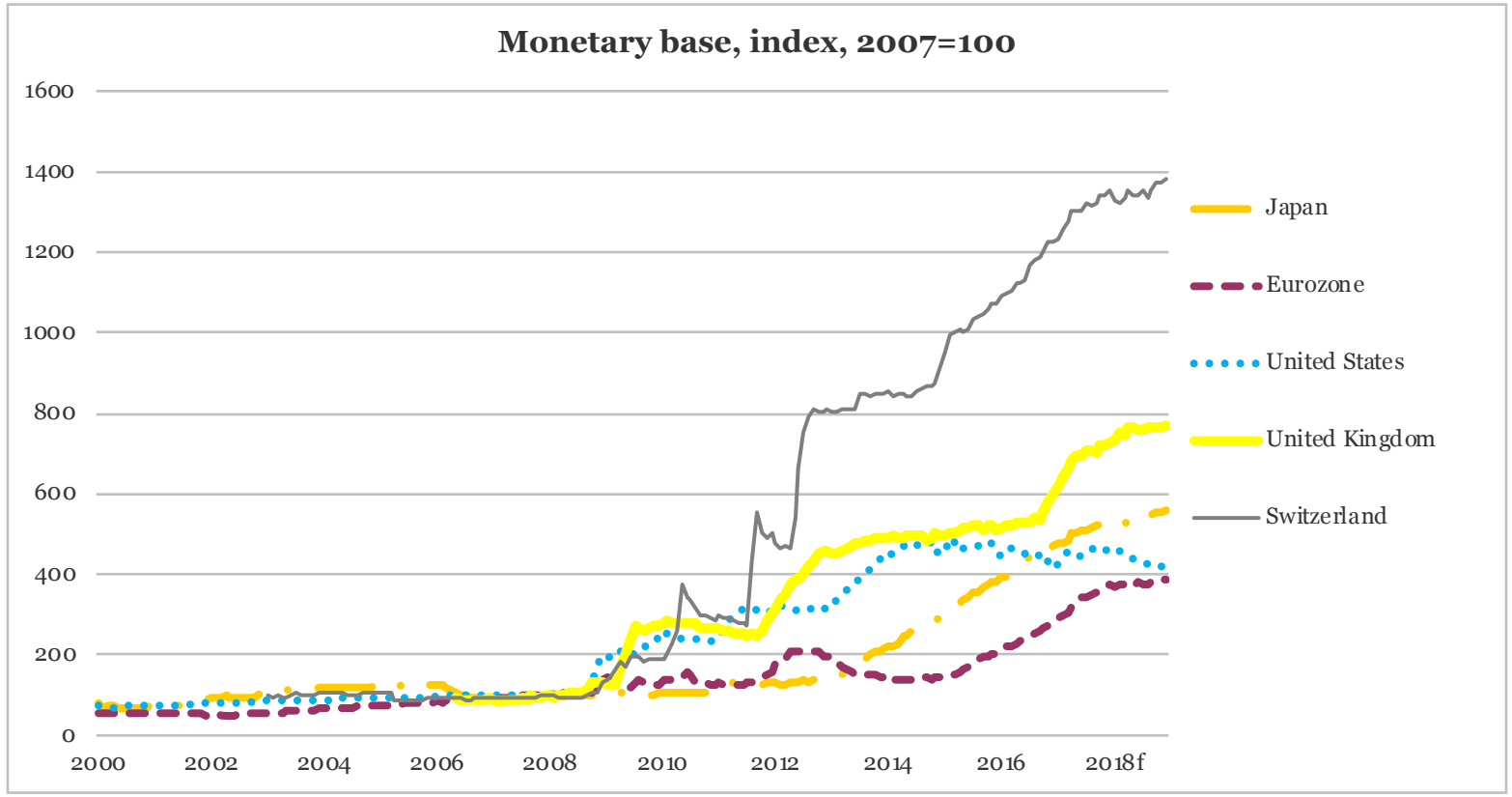
Source: U.S. Treasury, Japan Ministry of Finance

A bump for 2016 U.S. elections, gradually eroded during first three quarters of 2017

U.S. tax cuts, continued Fed tightening bump up rates again from late 2017

More recent Treasury nervousness on rate hikes, potential political battles for Fed

Quantitative Easing not dead yet



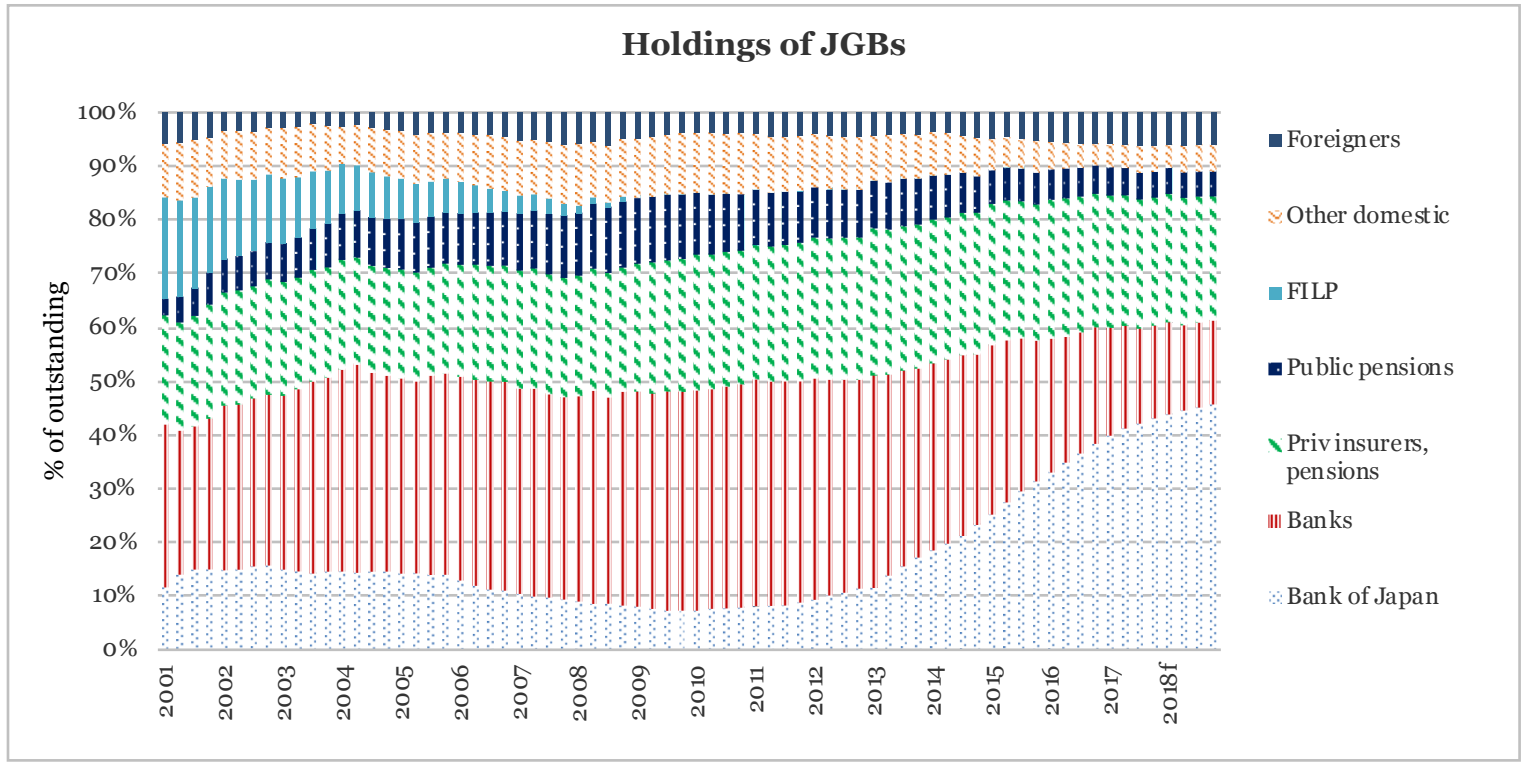
St Louis Federal Reserve Bank, ECB, Bank of England, Bank of Japan, SNB, author's projections

Fed finished the taper, raised rates, but has not withdrawn much liquidity

UK and Eurozone still printing, but close to a peak

Japan and Switzerland still cranking

BoJ on way to hold 50% of JGBs



Bank of Japan, author's calculations

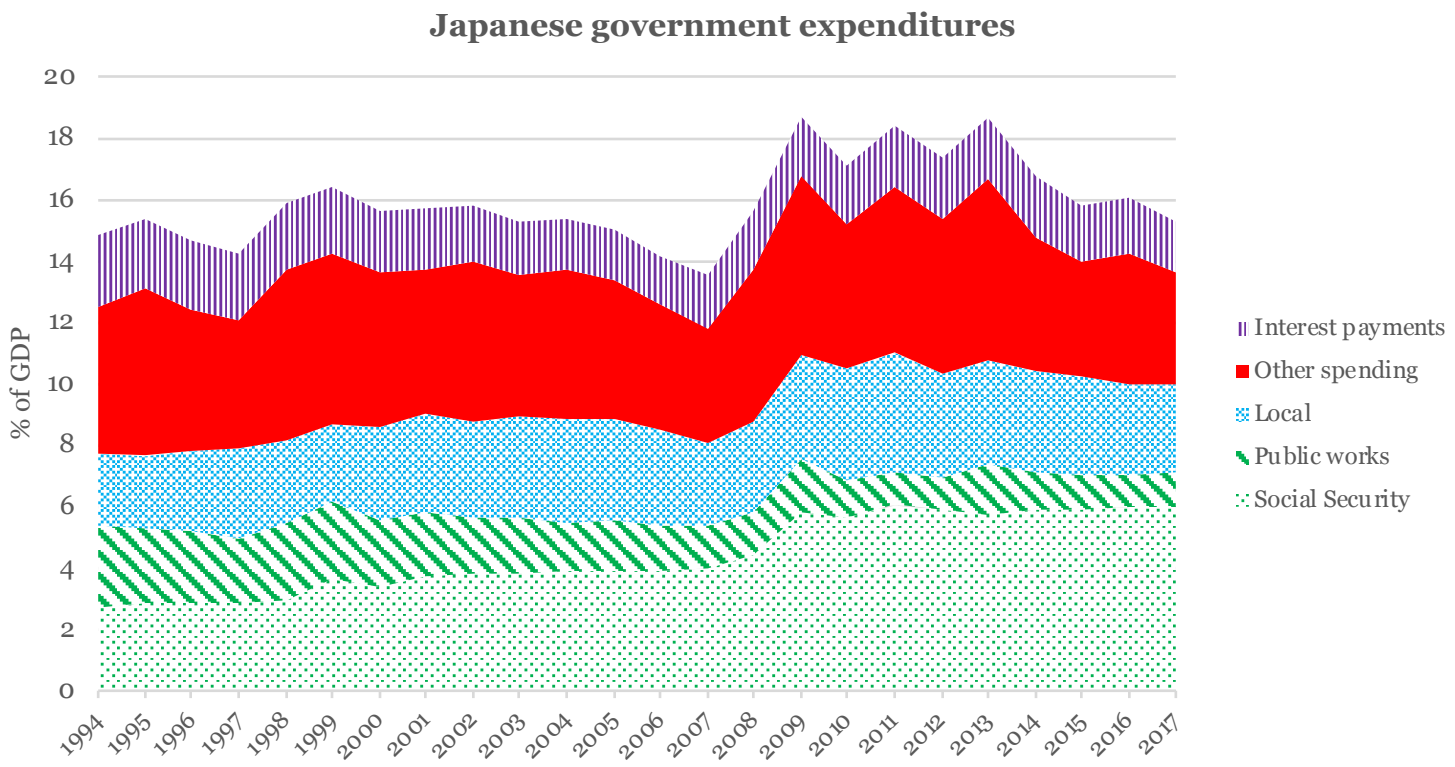
Bank of Japan holds 45% of JGBs as of June 2018

Share of holdings at domestic banks, insurers down

Foreigners up (but only to 6%) – where is Kyle B?

Individual holdings up slightly

Government expenditures "controlled"



Ministry of Finance, author's calculations

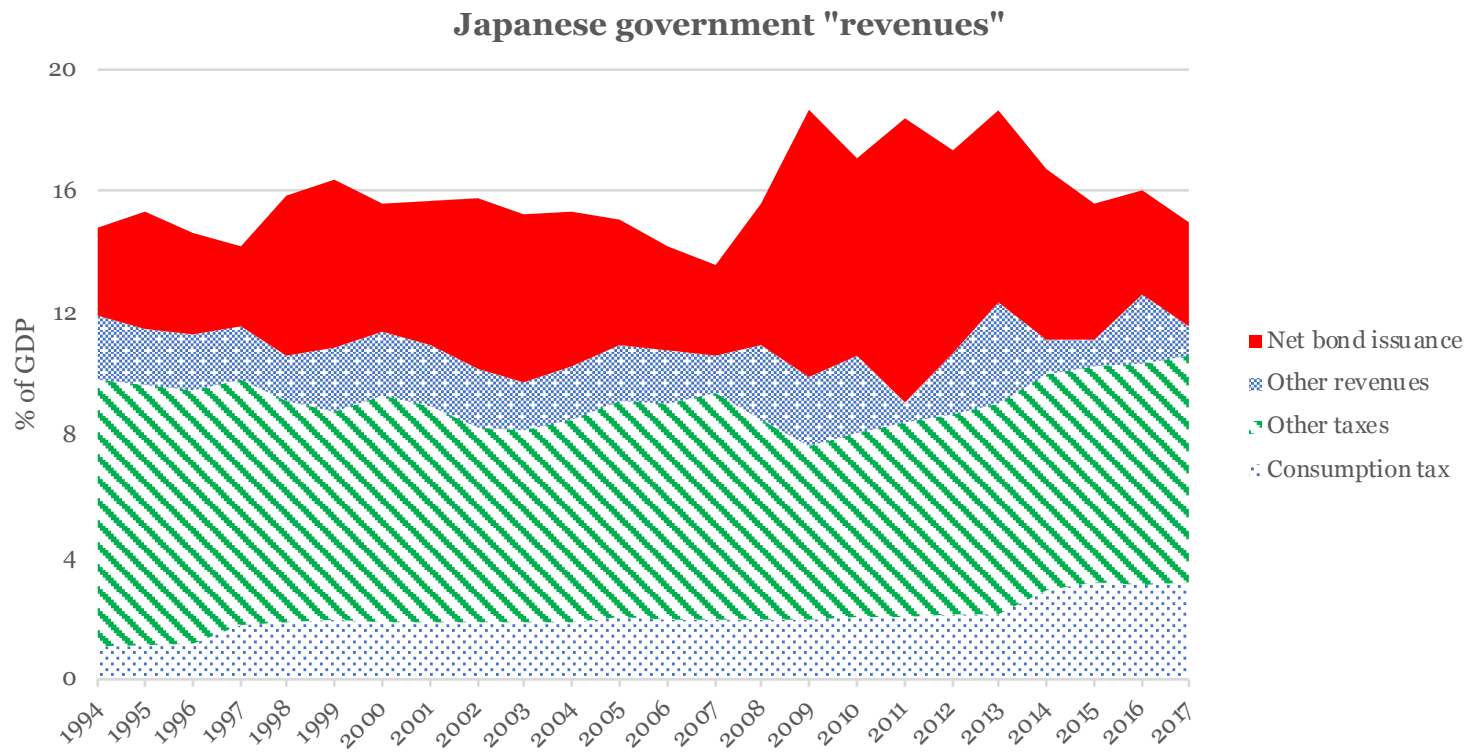
Rising debt but shrinking interest expenditures

QQE could work its magic on interest payments for the better part of another decade

Inexorable rise in social security tamed over last decade

Public works spending down

Issuance less dominant in govt revenues



Ministry of Finance, author's calculations

Bond issuance "normalized" as a revenue source

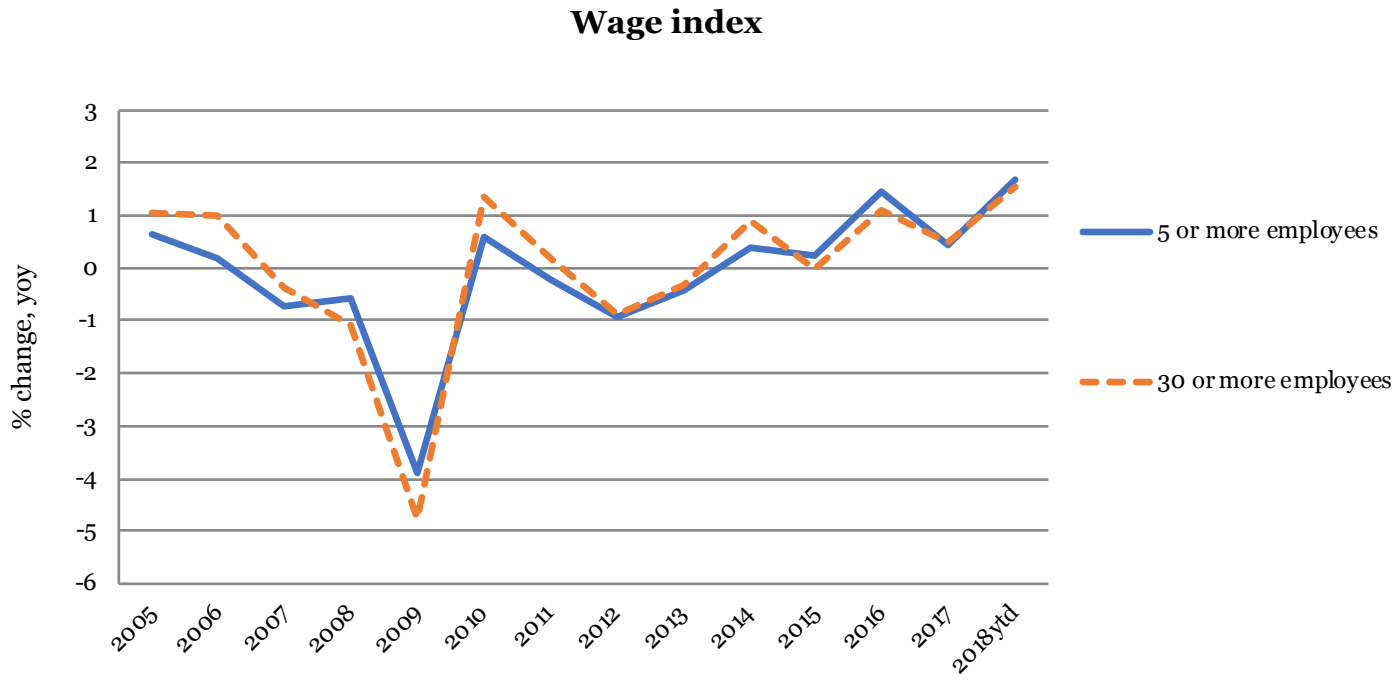
Reduction in issuance only partially due to lower interest payments

Consumption tax has supported revenues

Other taxes expanding again with economic recovery

A shrinking "other"

Compensation gains (slightly) beat inflation



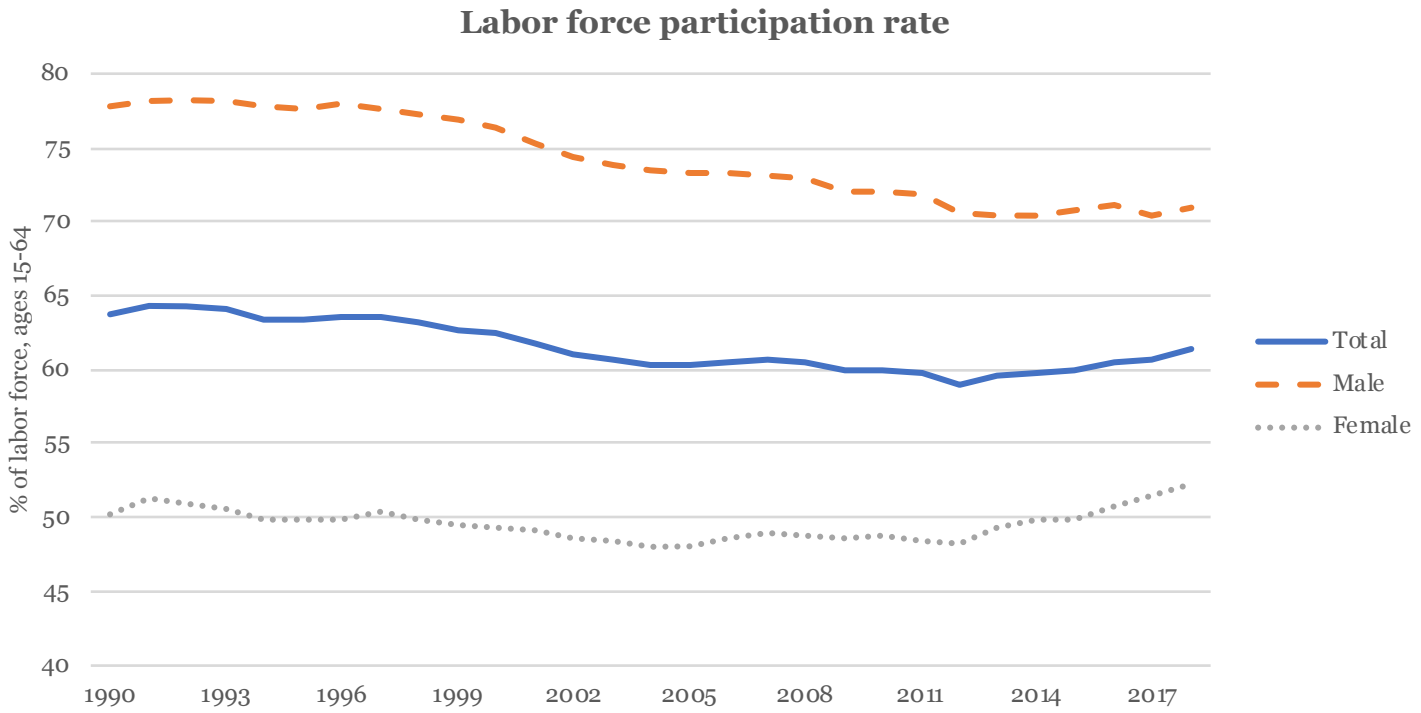
Compensation gains (including bonuses) exceeding 1.5% in 2018

Not far behind U.S. data

But inflation lower in Japan, so more real purchasing power increase

Japan Ministry of Health, Labor, and Welfare

Old Japan stabilizes, new Japan improves



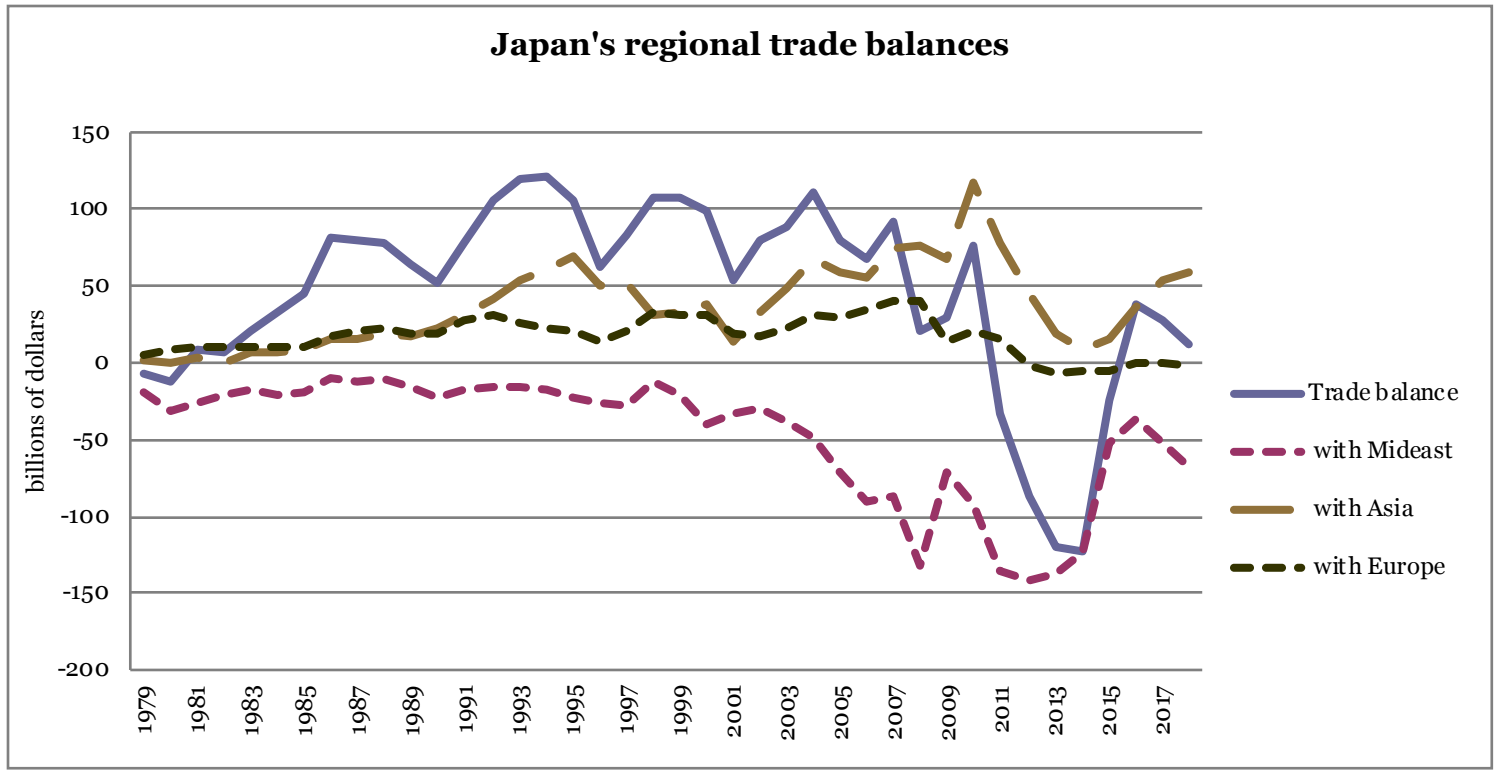
Japan Ministry of Health, Labor, and Welfare

Old Japan: participation rate for males has stabilized, even ticked up slightly

New Japan: 4 percentage point rise in female participation rate

Anecdotal Japan: Rise for those 65 and older even more impressive (or, depending on point of view, perhaps disenheartening)

The trade tsunami is done



JETRO

A balance in trade translates into a substantial BOP surplus

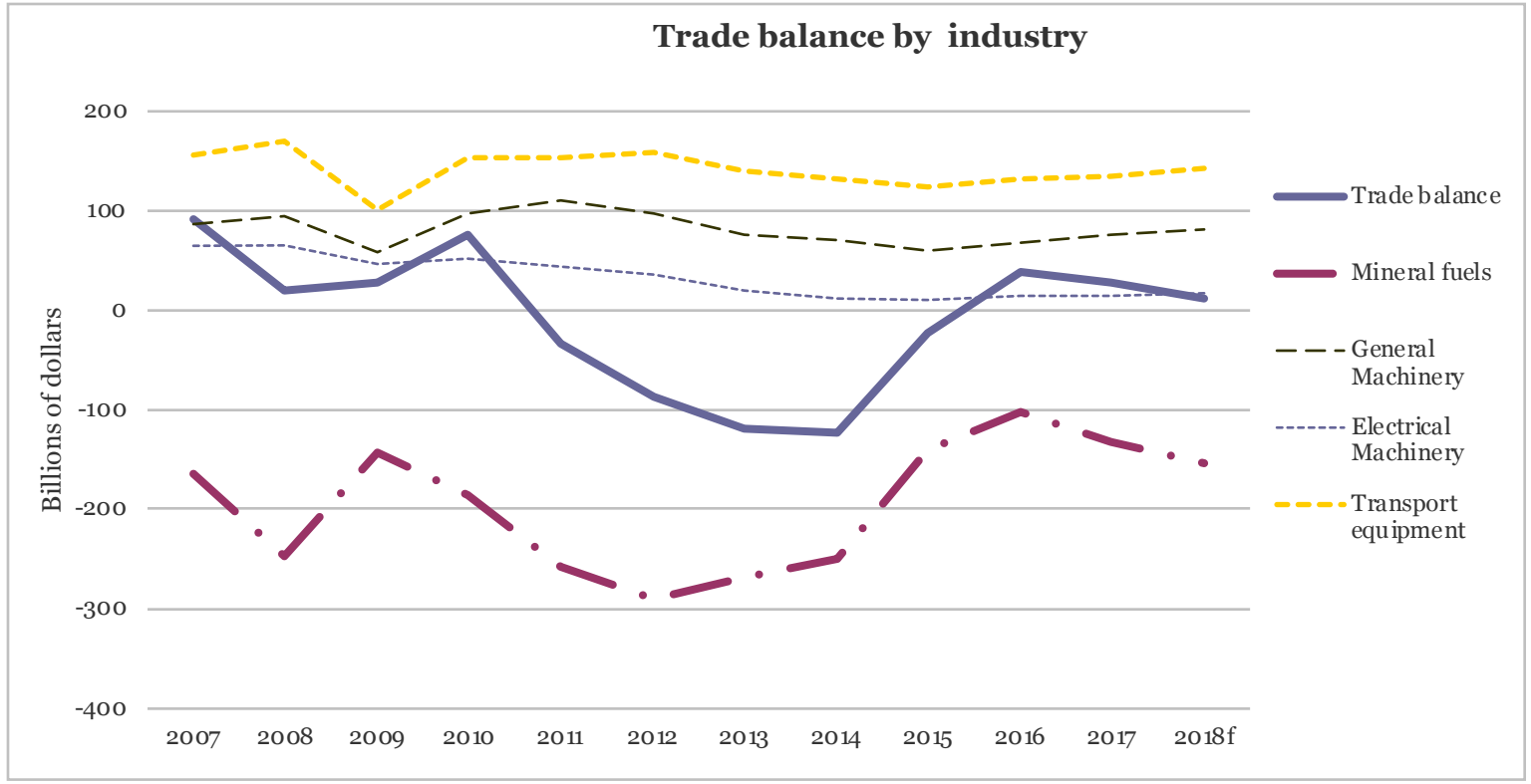
Much of shock from tsunami, closed nuclear plants gone by 2015

Hokkaido quake of 2018 should have no major impact

Low oil prices improved balance with Mideast, but effect dissipating

Global expansion has boosted Asian economies and imports from Japan

Japan's areas of strength are narrowing



JETRO

Longstanding deficit in mineral fuels back to size of early 2000s

Asia eating into Japan's surplus in electrical machinery

Transport holding up well (but is Japan next when Trump finishes NAFTA/ USMCA negotiations?)

General machinery strong on world economic growth