

Inflation Expectations Curve in Japan

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Abstract

We estimate "inflation expectations curve" – a term structure of inflation expectations – combining forecast data of various agents. We use a state-space model which considers consistency among expectations at different horizons, and for relationships between inflation rate, real growth rate and nominal interest rate.

We find that the slope of the curve in Japan is positive in almost all periods since the 1990s. In addition, looking at the estimated inflation expectations in time series, the inflation expectations at all horizons rose in the mid-2000s and from late 2012 to 2013, after the downward trend from the early 1990s to the early 2000s. Short-term inflation expectations in particular have tended to shift upwards since the launch of Quantitative and Qualitative Monetary Easing, while being affected by fluctuations in the import price. Finally, a structural VAR analysis shows that the estimated inflation expectations in Japan are largely adaptive, meaning their formation is affected by actual inflation rates.