The past: The effects of deflation

“A sorcerer’s apprentice of debt – a machine for making a bad situation worse”

Nominal GDP performance since 1990

Real growth per worker
Nominal GDP (1990 = 100)

Sources – Thomson Datastream, Capital Economics
REAL GDP PER PERSON OF WORKING AGE
(1990 = 100)

Sources – Thomson Datastream, Capital Economics
Japanese banks can afford to lend

Loan to deposit ratio (%)

Source: BNY Mellon
Japanese companies can afford to spend

Corporate savings as a % of nominal GDP

Source: BNY Mellon
The present: Abenomics

Shift from deflationary equilibrium to inflationary equilibrium

The market reaction

The political reaction

“A change in the weather”
What now?

The third arrow

Fiscal contraction (the consumption tax hike)

Follow-through and distraction
The future: risks and opportunities

- Wages/demand
- Bond yields/debt service
- Fiscal sustainability
- Demographics
- The virtuous circle