

Mizuho Economic Outlook & Analysis

Will "savings to investment" advance?

Keys to success of the Doubling Asset-based Income Plan and a simulation of the future

August 18, 2023

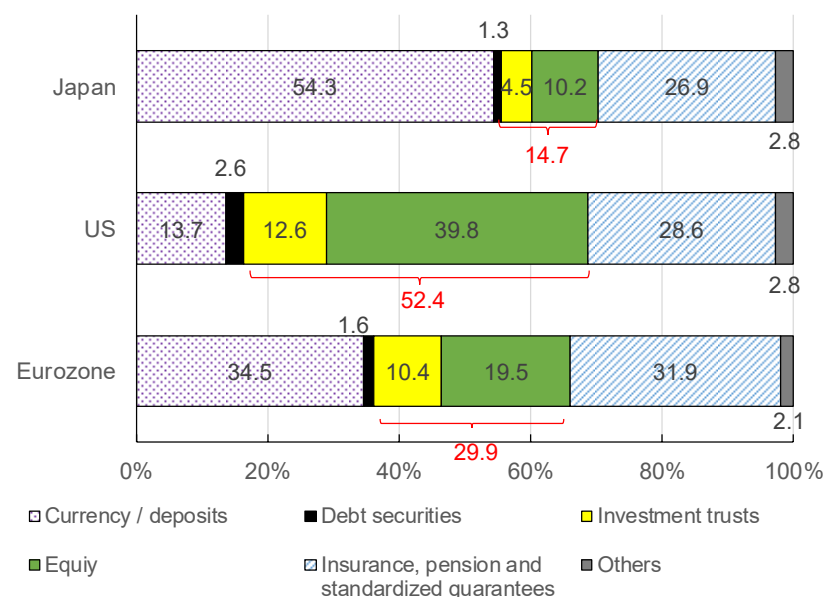
Mizuho Research & Technologies, Ltd.

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“Savings to investment” has never materialized

- Japanese households hold less risk assets than households in Europe and the United States.
 - The share of risk assets (stocks and investment trusts) held by Japanese households is about 15% (as of 2022). Japan is well below the US with over 50% and the Eurozone with roughly 30%.
- Japan’s ratio of risk asset holding rose to the high 20% range in the late 1980s during the bubble economy but has remained in the 10% to 15% range since the bubble’s collapse. The Japanese government has promoted the slogan "from savings to investment" since 2001 during the Koizumi administration, but the ratio of household risk assets remains low. Meanwhile, the ratio in the US has risen to over 50%.

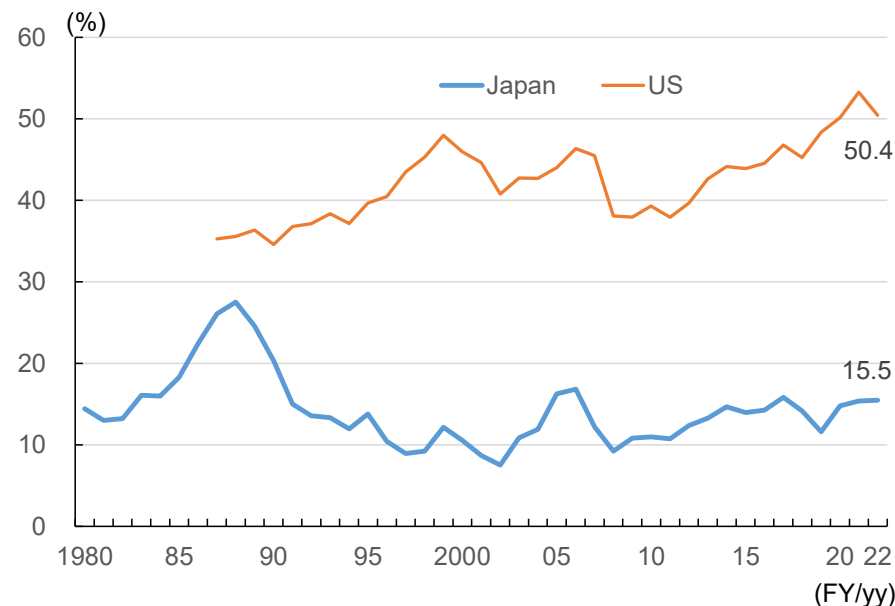
Comparison of the structure of household financial assets in Japan, the US, and Europe



Note: Data as of the end of March 2022.

Source: Compiled by MHRT based on the *Comparison of the Flow of Funds - Overview of Japan, the United States, and the Euro area* by the Bank of Japan.

Ratio of risk asset holdings of Japanese and US households



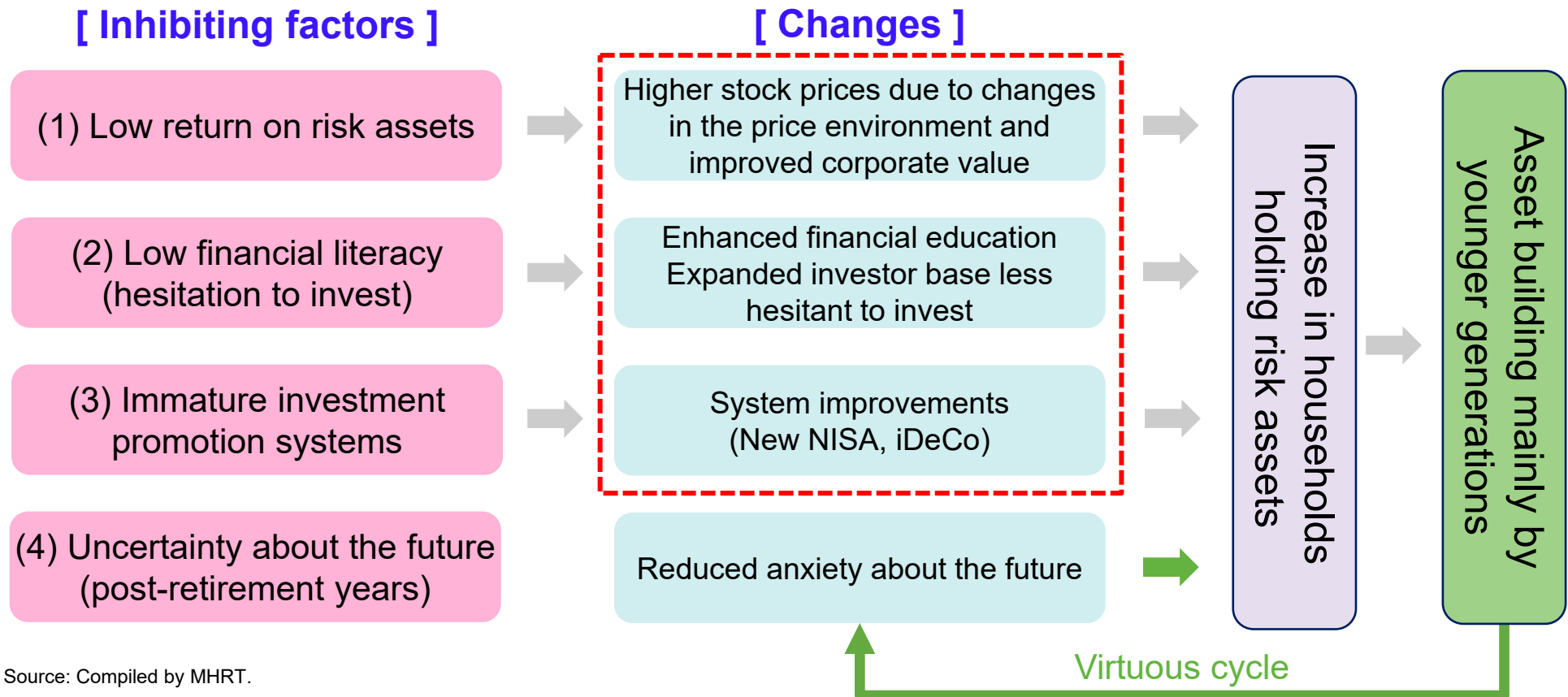
Note: Risk assets are the total of equity and investment fund shares. Calendar year for the US and fiscal yearend for Japan.

Source: Compiled by MHRT based on the *Flow of Fund Accounts* by the FRB, and the *Flow of Funds Accounts Statistics* by the Bank of Japan.

Conditions are ripe for boosting risk asset investment

- The main reasons for the low rate of risk asset holdings are (1) low return on risk assets, (2) low financial literacy (hesitation to invest), (3) immature investment promotion systems, and (4) uncertainty about the future (post-retirement years).
- With the recently introduced “Doubling Asset-based Income Plan,” there are signs of change in factors (1) through (3). If household investment in risk assets grows and asset building progresses, a virtuous cycle can be expected where risk asset investment is stimulated as anxiety about the future diminishes.

Factors inhibiting households from holding risk assets and current changes



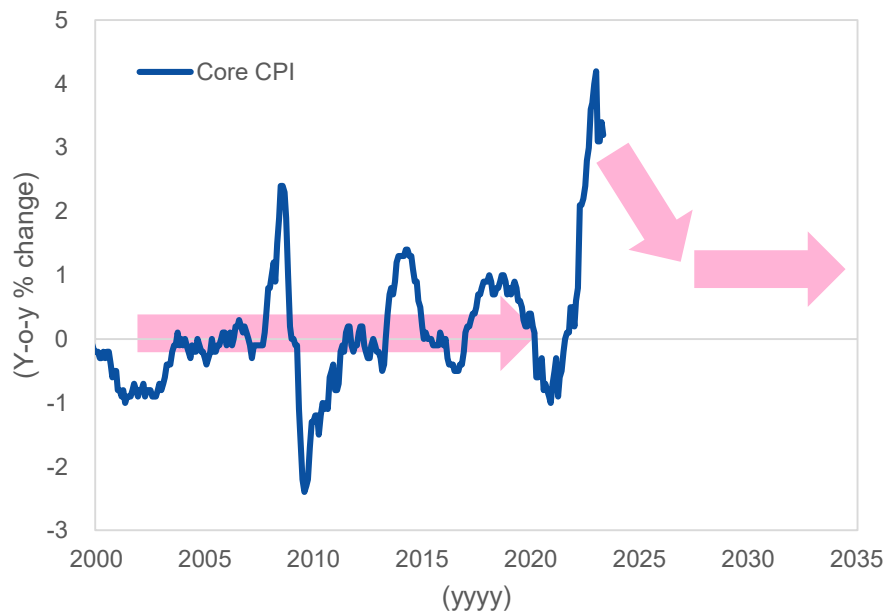
Source: Compiled by MHRT.

Keys to stimulating risk asset investment (1)

- Improved return on risk assets (stock price)

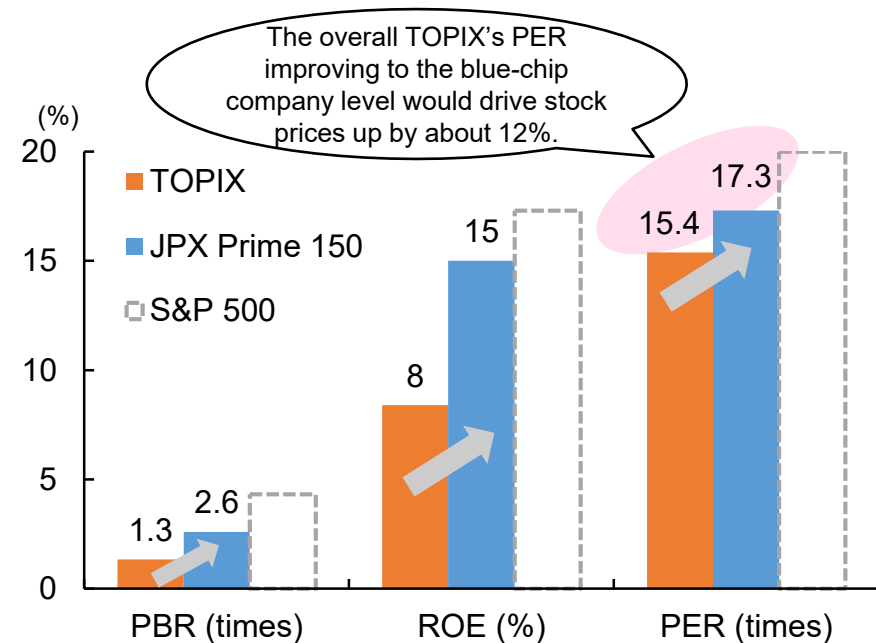
- Rising underlying inflation is a factor increasing the appreciation rate of stock prices in the medium to long term.
 - Stock prices tend to be linked to nominal GDP growth in the long run. Mizuho RT forecasts that the year-on-year change in core CPI, which has been hovering near zero for the past 20 years, will rise to an average of about 1% going forward, supported by wage increases on the back of labor shortages and other factors. Nominal GDP is expected to be in the mid-1% range, making it easier for stock prices to rise.
- Improved corporate value in response to capital market reforms, TSE requests, etc., will also contribute to higher share prices over the medium to long term.
 - TSE emphasizes equity spread (ROE - cost of equity) and PBR (price book value ratio). If many companies see improvements or investment shifts to a group of blue-chip companies (JPX Prime 150), the price-to-earnings ratio (PER) of the overall TOPIX is expected to rise.

Inflation rate (core CPI)



Note: Core CPI is all items less fresh food. Consumption tax adjusted index.
 Source: Compiled by MHRT based on the *Consumer Price Index* by the Ministry of Internal Affairs and Communications.

Comparison of stock price indices



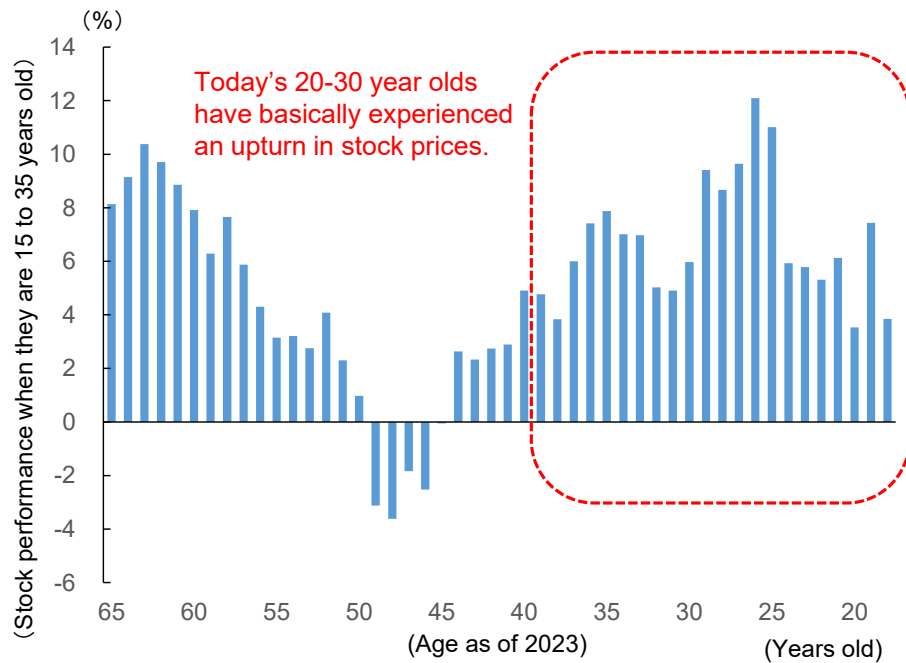
Note: TOPIX and S&P 500 as of July 13, 2023; JPX Prime 150 as of May 16, 2023.
 Source: Compiled by MHRT based on data by the Tokyo Stock Exchange and Bloomberg.

Keys to stimulating risk asset investment (2)

- Increased number of investors with less resistance to risk assets

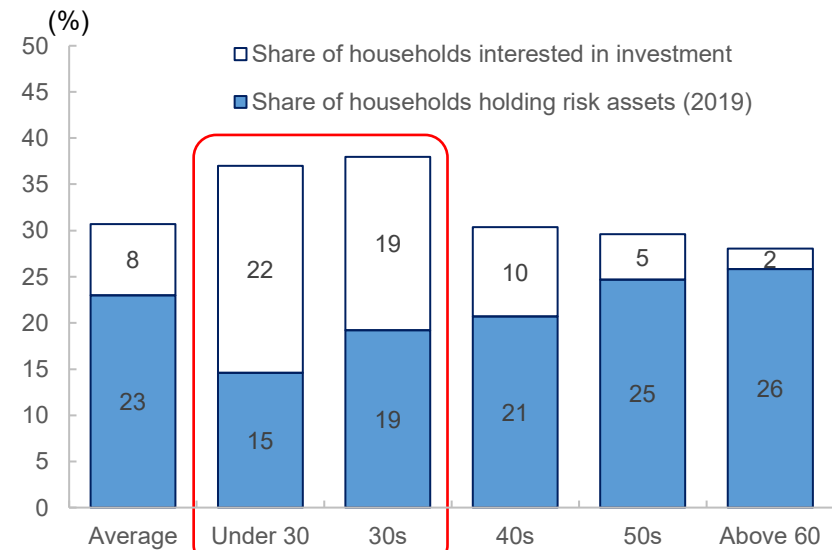
- Younger age groups (20s and 30s) who have experienced an upturn in stock prices since the Abenomics period tend to be less resistant to invest in risk assets.
 - Interest in investment in risk assets among young people is increasing due to the positive effects of financial education, albeit still insufficient, and greater convenience of investing with new tools such as online securities transactions.
- More than 20% of households hold risk assets. When combined with people interested in risk assets, the total exceeds 30%, leaving room for further expansion of investors.
 - Investment among young people (up to 30s) who currently hold a low percentage of risk assets but have strong interest in investment is expected to grow.
 - To further expansion of investors, initiatives to heighten investment interest (education) are also important.

Stock prices experience by age



Note: Stock prices performance is the 20-year average of the Nikkei Stock Average annual return.
 Source: Compiled by MHRT based on data by Nikkei Inc. and INDB.

Ownership and interest in risk assets



Note: Households interested in investment = Households that do not hold risk assets times percentage of households interested in investment
 Percentage of households interested in investment is the percentage of respondents who answered "Yes" to the question: "Do you want to purchase financial products with risk in the future?" in a survey by the Financial Services Agency (2022) targeted at people with no experience in investment.

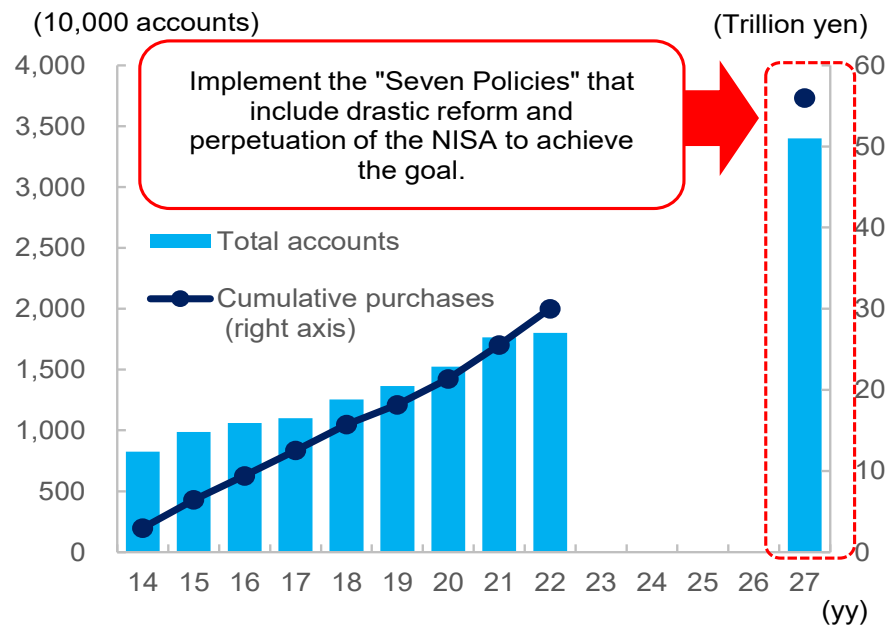
Source: Compiled by MHRT based on the *National Survey of Family Income, Consumption and Wealth* by the Ministry of Internal Affairs and Communications, and the *Results of the Customer Attitude Survey on Sales of Financial Products with Risk* by the Financial Service Agency (2022).

Keys to stimulating risk assets investment (3)

- Enhanced investment promotion programs (new NISA and iDeCo)

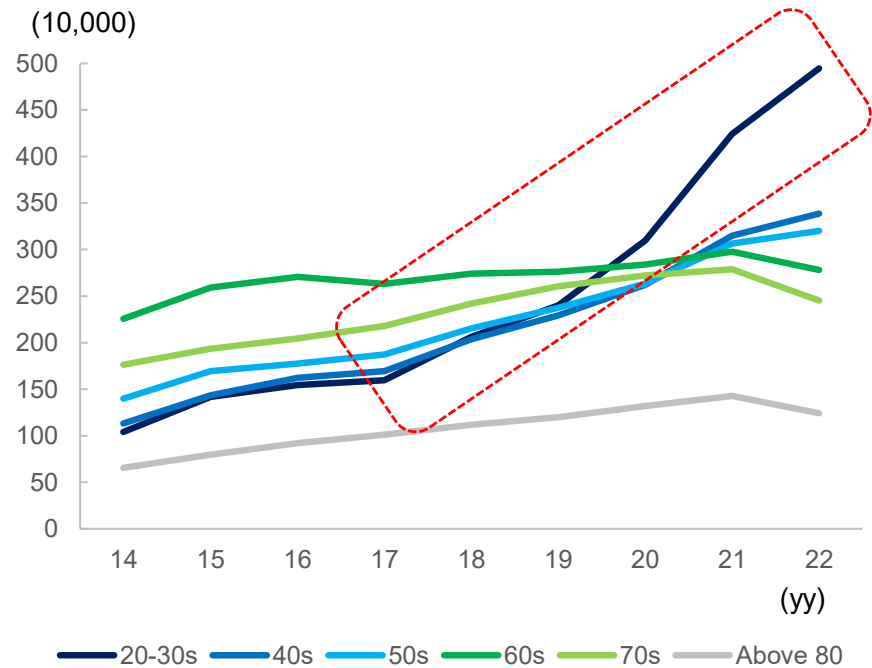
- The government has set the goal of doubling the total number of NISA accounts and cumulative NISA purchases over the next five years through the expansion and perpetuation of the NISA system.
 - The short-term goals of the Doubling Asset-based Income Plan (November 2022) are to (1) double the total number of NISA accounts (34 million accounts) and (2) double cumulative NISA purchases (56 trillion yen) over the next five years. The long-term goal is to double the asset management return.
- The number of NISA accounts has grown consistently since the program first began in 2014, and the number of accounts held by the 20s and 30s age groups has recently surged.
 - NISA, which allows for easy, small investments, is a catalyst for starting investments, and the launch of the new NISA system in 2024 may lead to further investment promotion.

Total number of NISA accounts and cumulative purchases



Note: Values in 2027 is the target of the Doubling Asset-based Income Plan (November 2022).
 Source: Compiled by MHRT based on the *Survey on the Usage of NISA Accounts* by the Financial Service Agency.

Number of NISA accounts by age group



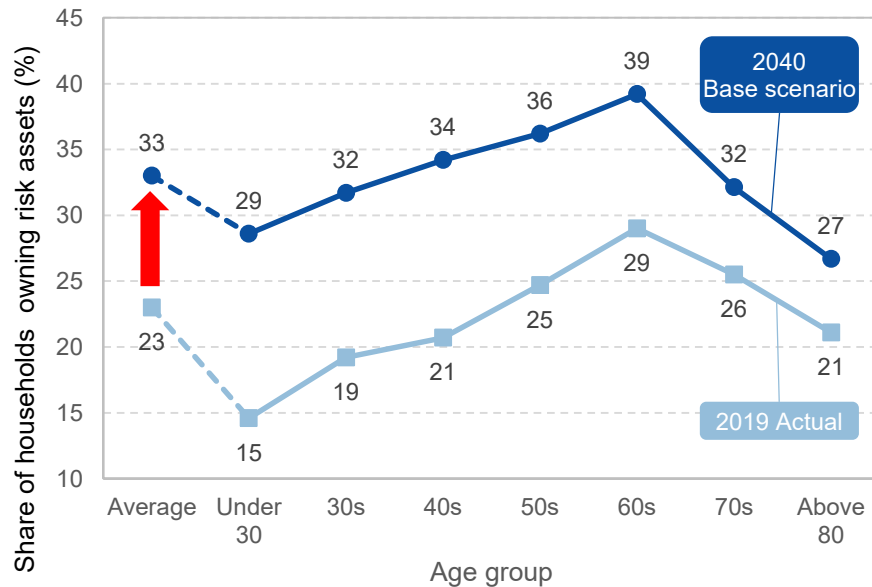
Source: Compiled by MHRT based on the *Survey on the Usage of NISA Accounts* by the Financial Service Agency.

Simulation of household risk asset balance

- Risk assets in 2040 are expected to be 2.4 times the current level

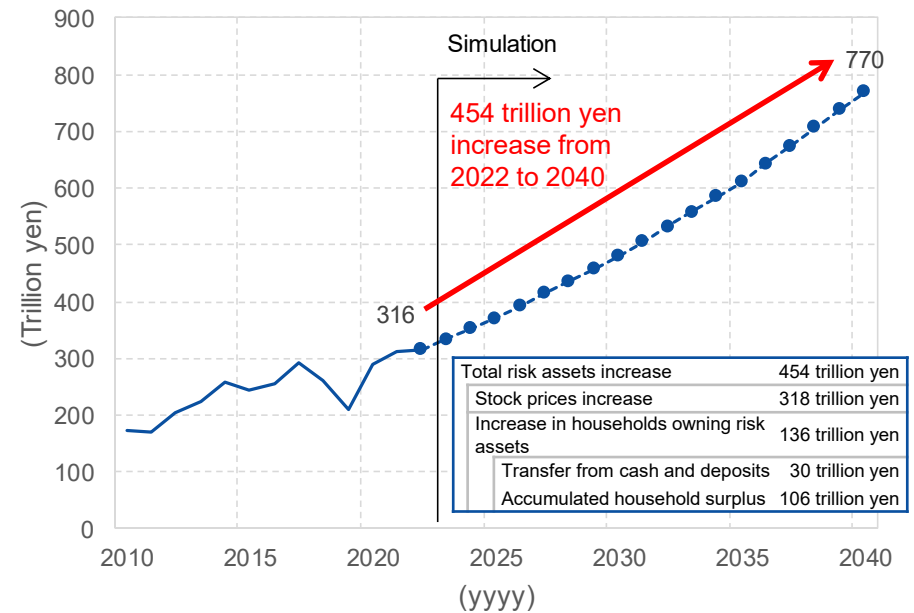
- The base scenario assumes a 10%Pt rise in the percentage of households holding risk assets by 2040 and an average annual stock price increase of 3%.
 - We assume that the percentage of households holding risk assets will increase relatively higher among younger age groups, while the percentage of households in their 70s and 80s and above will increase only to a limited extent.
 - Assuming nominal GDP growth of 1.5%, higher stock prices are expected with a rising EPS (earnings per share).
- The simulation results show that **risk assets in 2040 will be 770 trillion yen, or 2.4 times the actual amount in 2022 (316 trillion yen)**.
 - Of the 454 trillion yen increase, 318 trillion yen is attributable to rising stock prices and 136 trillion yen to an increase in households holding risk assets. Transfers from cash and deposits account for 30 trillion yen.
 - The share of risk assets to household financial assets will be **31% in 2040 (15% in 2022), close to the current level in Europe**.

Assumed percentage of households holding risk assets



Source: Compiled by MHRT based on the Results of the Customer Attitude Survey on Sales of Financial Products with Risk by the Financial Service Agency.

Simulation results of household risk asset balance



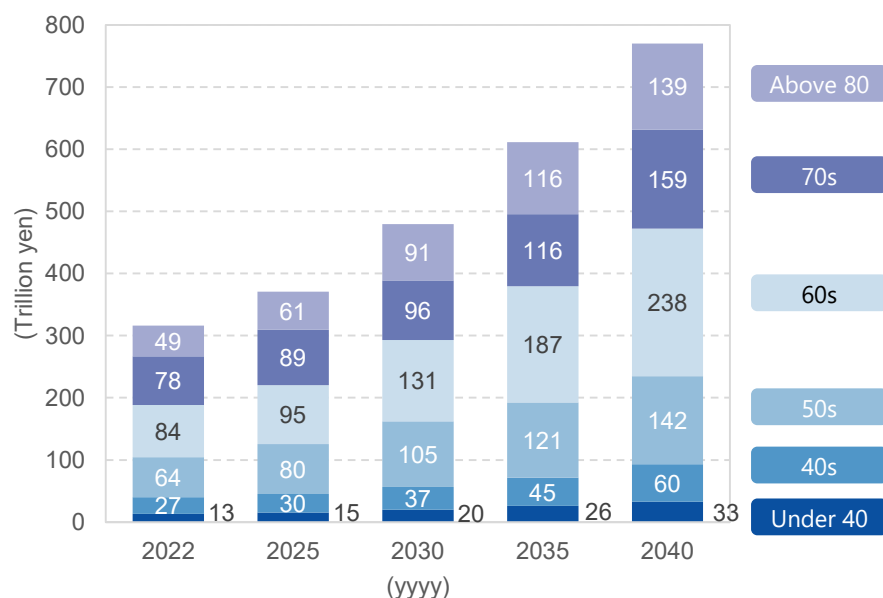
Note: Risk assets are the total of equity (listed and unlisted stocks, and holdings in companies other than joint-stock companies and special corporations) and beneficiary certificates of investment trusts.

Source: Compiled by MHRT based on the Flow of Funds Accounts Statistics by the Bank of Japan, and the National Survey of Family Income, Consumption and Wealth by the Ministry of Internal Affairs and Communications.

Simulation of household risk asset balance - Implications by age group

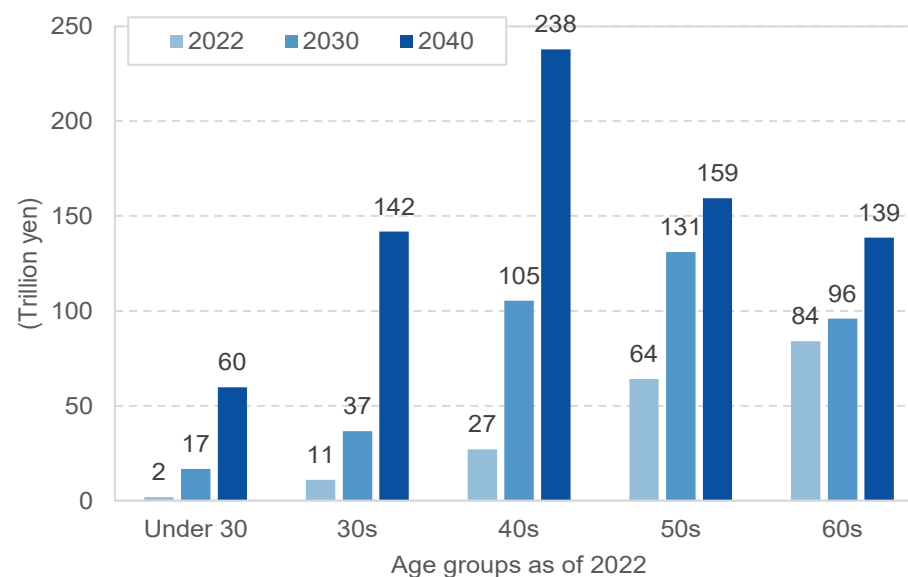
- By age group, the balance of risk assets of people in their 60s will rise significantly to about 240 trillion yen in 2040 (2.8 times the 2022 level).
 - Background: In addition to the high percentage of households in their 60s holding risk assets, the number of households in this age group will increase through the 2030s.
 - While the percentage of households under the age of 40 holding risk assets will increase, the declining number of households will be a restraining factor. As a result, the balance of risk assets will remain at just over 30 trillion yen in 2040.
- From the perspective of how much the risk assets of each age group will increase in the future (cohort analysis), the balance of risk assets of the under 30 to 40s age groups is expected to grow rapidly (by about 400 trillion yen in less than 20 years). Building momentum for risk asset holding among young and middle-aged groups will be important.

Simulation results of risk asset balance by age group



Source: Compiled by MHRT based on the *Flow of Funds Accounts Statistics* by the Bank of Japan, and the *National Survey of Family Income, Consumption and Wealth* by the Ministry of Internal Affairs and Communications.

Simulation results of risk asset balance by cohort (generation)

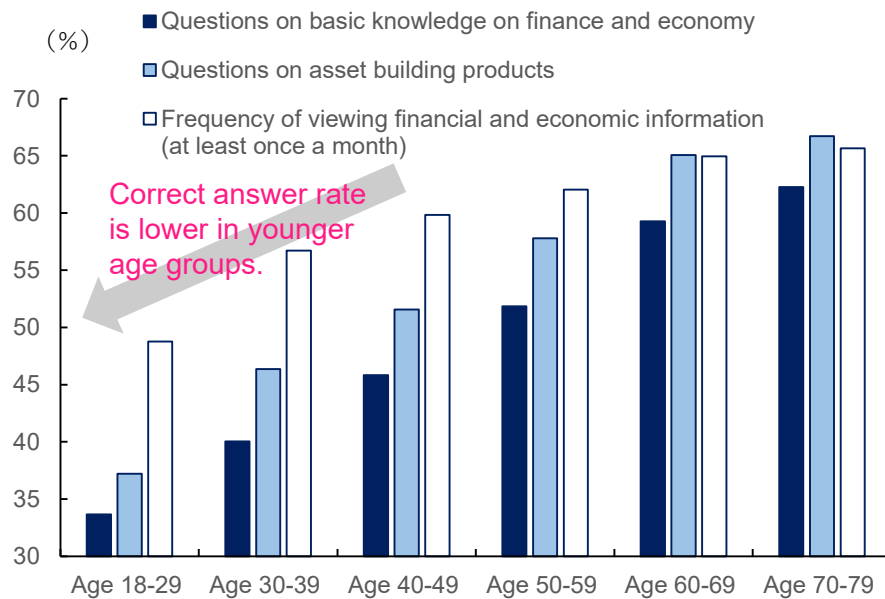


Source: Compiled by MHRT based on the *Flow of Funds Accounts Statistics* by the Bank of Japan, and the *National Survey of Family Income, Consumption and Wealth* by the Ministry of Internal Affairs and Communications.

Enhancing financial literacy among young people is required

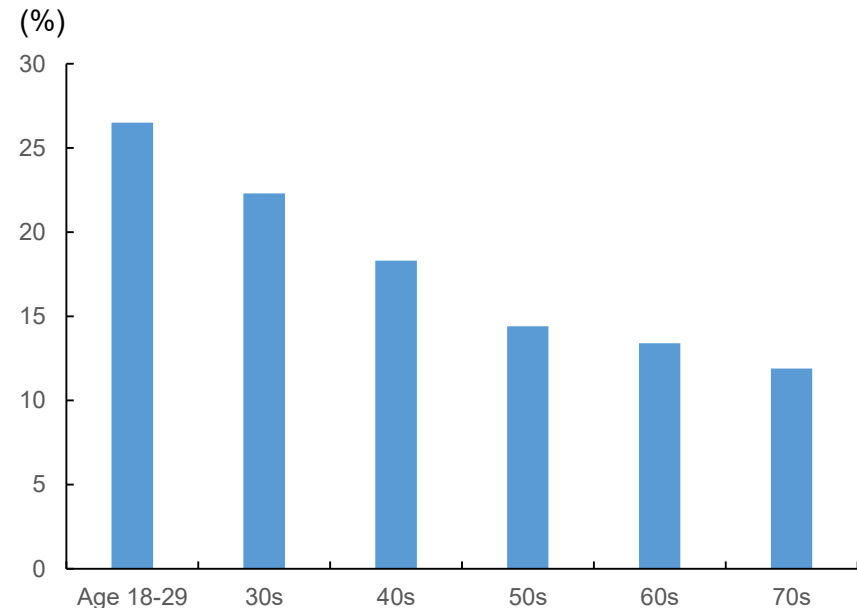
- The percentage of correct answers to the “financial literacy test” is lower for younger age groups than other age groups.
 - Younger generations tend to access financial and economic information less frequently on their own.
- Young adults tend to have a strong lockstep mentality and are easily influenced by people around them as well as by information read on the Internet such as SNS.
 - While the presence of experienced investors around young adults may encourage new investors, there is also the risk of financial trouble caused by misinformation.

Percentage of correct answers to the financial literacy test by age group



Note: Average percentage of correct answers for each age group.
 Source: Compiled by MHRT based on the *Financial Literacy Survey (2022)* by the Central Council for Financial Services Information.

Ratio of people with a strong lockstep mentality

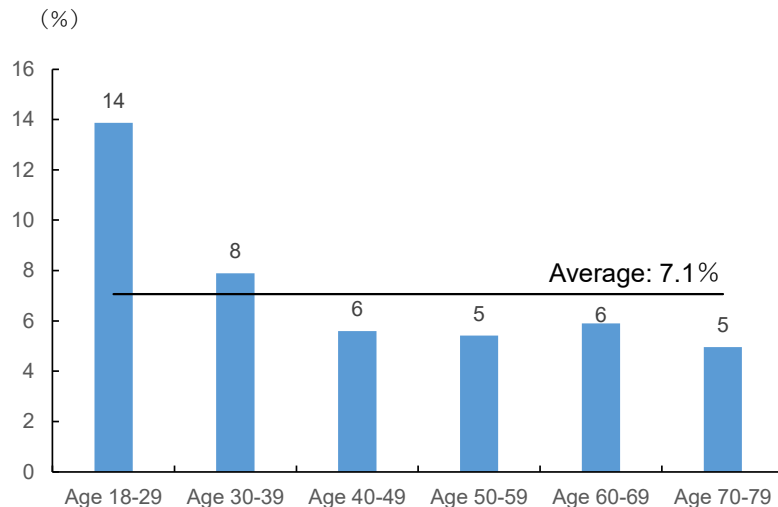


Note: Percentage of respondents who answered “agree” or “somewhat agree” to the question: “When there are several similar products, I tend to buy what is recommended as the best-selling product, rather than what I actually think is a good product.”
 Source: Compiled by MHRT based on the *Financial Literacy Survey (2022)* by the Central Council for Financial Services Information.

Enhancing financial and economic education and strengthening advisory functions are essential

- The "Financial and Economic Education Promotion Organization" and "neutral certified advisors" set forth in the Doubling Asset-based Income Plan will play a significant role.
 - Currently, about 7% of respondents say they have received financial and economic education. The ratio is slightly higher (roughly 14%) for those under 30.
 - The government will establish the “Financial and Economic Education Promotion Organization” to help provide financial and economic education from a neutral standpoint (scheduled for 2024). Nationwide development of financial and economic education by the public and private sectors and accreditation and utilization of neutral advisors from the investors’ perspective are on the agenda.
 - Younger age groups are increasingly interested in investing in risk assets, but their financial literacy is low level. Therefore, improving their financial literacy is an essential prerequisite for promoting investment. Financial institutions need to cooperate in enhancing financial literacy as well as tighten the ethics/morals of financial asset sellers.

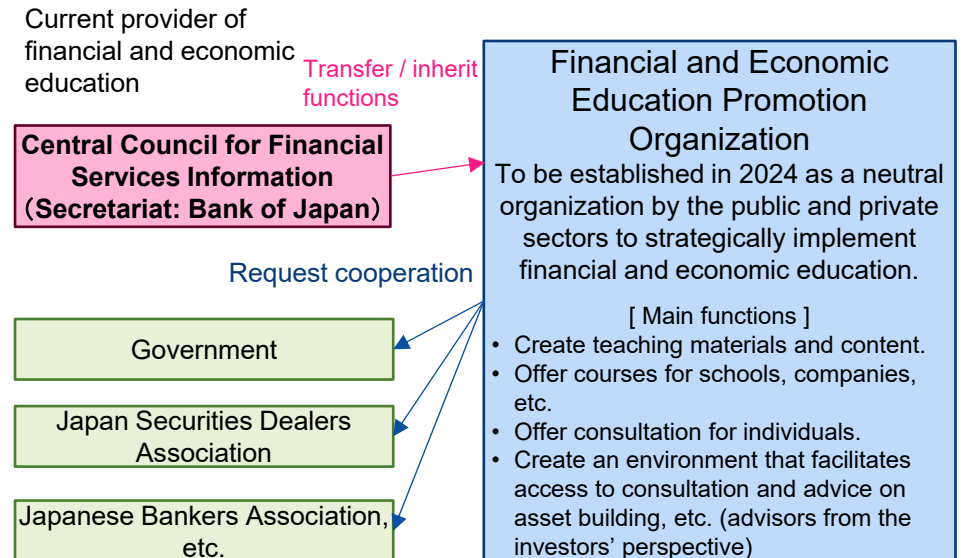
Percentage of respondents who have received financial education



Note: Percentage of respondents who answered "Yes, and I did participate in the financial education" to the question: "Did you have a chance to get a financial education offered by a school or college you attended, or a workplace where you were employed?"

Source: Compiled by MHRT based on the *Financial Literacy Survey (2022)* by the Central Council for Financial Services Information.

Overview of the Financial and Economic Education Promotion Organization



Source: Compiled by MHRT based on various materials by the Cabinet Secretariat, Financial Services Agency, Japan Securities Dealers Association, Central Council for Financial Services Information, and Japanese Bankers Association.

Conclusion

1. What are the obstacles to households holding risk assets? Are there signs of change?

- The main reasons for the low rate of risk asset holdings are (1) low return on risk assets, (2) low financial literacy (hesitation to invest), (3) immature investment promotion systems, and (4) uncertainty about the future.
- Currently, we are in a situation where progress in "shift from savings to investment" can be expected due to rising stock prices, increasing numbers of investors less hesitant to invest in risk assets, and expansion of NISA and other systems.

2. To what extent will household risk assets increase in the future?

- The simulation shows that household risk assets will grow 2.4 times from 2022 to 2040.
- An increase in the number of households holding risk assets, especially among younger age groups, and rising stock prices will contribute to this growth.

3. What are the policies needed to promote asset income doubling going forward?

- Younger generations who are expected to drive investment growth have low financial literacy. There is an urgent need to strengthen financial education.

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