

## The Japanese economy: topic of the month

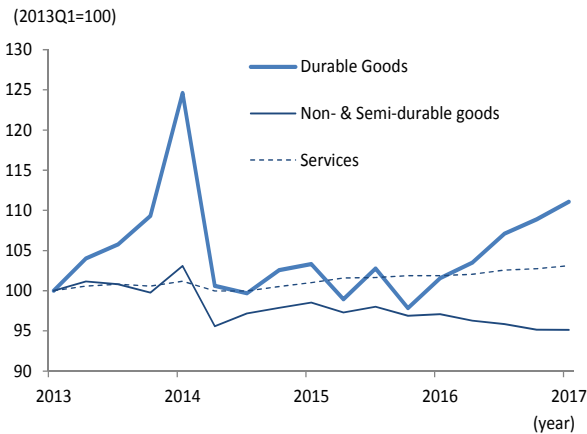
### Slow improvement of consumer confidence among pension households

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Personal consumption (GDP-based) grew +0.4% q-o-q in the Jan-Mar quarter of 2017, picking up from +0.0% q-o-q in the Oct-Dec quarter of 2016. Even so, it is still around the same level at the start of 2013 immediately after the launch of Abenomics, revealing that the recovery of personal consumption has been weak subsequent to the consumption tax hike. Note that consumption of non- and semi-durable goods has been particularly weak (**Chart 1**) in comparison to services which has been continuing to track a gradual uptrend, and durable goods consumption which has benefitted from the alleviation of stock adjustment pressures. The price rise of items such as food, utilities and clothing is most likely serving to intensify households' budget-consciousness.

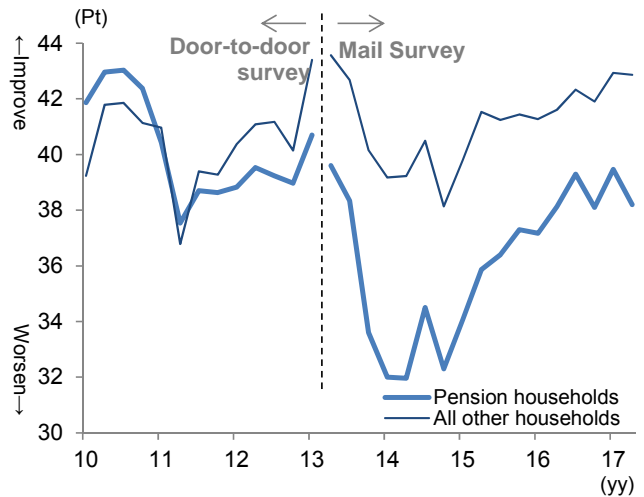
The question of whether or not consumers will loosen their purse strings going forward, depends upon their perception on future income growth and overall livelihood. The improvement of perceptions on "income growth" and "overall livelihood" in the *Consumer Confidence Survey* (Cabinet Office), which surveys household outlooks over the coming six-month period, may be considered as positive signs. However, it should be noted that in comparison to working-age households which may expect the gradual rise of wages, the future outlook is not as sanguine among older households which rely upon pensions as their main source of income (**Chart 2**). Given the rising impact of older households upon consumer spending, a slow improvement of consumer confidence among these households may serve to weigh down the recovery of consumer spending. Even though personal consumption - mainly of durable goods and services - should remain steady for the time being, a robust upturn is unlikely anytime soon.

[ Chart 1: Trends in real consumption expenditures ]



Note: Non- & semi-durable goods is the chain-weighted sum of the two components.  
 Source: Made by MHRI based upon Cabinet Office, *Consumer Confidence Survey*

[ Chart 2: Perception on overall livelihood, income growth ]



Note: 1. The figure shows the average of indices for "overall livelihood" and "income growth" (all households, non-seasonally adjusted). The 2<sup>nd</sup> quarter of 2017 indicates data for April.  
 2. The index for "All other households" was calculated using the weights based on the number of surveyed households.  
 Source: Made by MHRI based upon Cabinet Office, *Consumer Confidence Survey*

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