

---

# Mizuho Economic Outlook & Analysis

---

August 11, 2015

---

## *An analysis of factors behind the post-tax hike consumer spending slump*

*Note a change in buying appetite in the high income bracket*

### < Summary >

- ◆ In FY2014, personal consumption posted the sharpest year-on-year (y-o-y) decline since FY1956, which is the earliest date statistics are available. Note the weak recovery from the fall of personal consumption after the last-minute rush of demand prior to the consumption tax hike.
- ◆ The personal consumption slump stems partially from the decline of consumption propensity mainly in the high income bracket, in addition to the fall of real income. The buying appetite in the high income bracket was particularly weak in durable goods, leading to the fall of consumption propensity.
- ◆ Personal consumption in FY2015 will likely be driven by real income and consumer confidence. At the time of the next tax hike in FY2017, measures to support income and curb sharp swings in consumer buying appetite arising before and after the consumption tax hike will be necessary.

---

Mizuho Research Institute Ltd.

**Hiromasa Matsuura**, Economist, Economic Research Department

hiromasa.matsuura@mizuho-ri.co.jp

---

This publication is compiled solely for the purpose of providing readers with information and is in no way meant to encourage readers to buy or sell financial instruments. Although this publication is compiled on the basis of sources which Mizuho Research Institute Ltd. (MHRI) believes to be reliable and correct, MHRI does not warrant its accuracy and certainty. Readers are requested to exercise their own judgment in the use of this publication. Please also note that the contents of this publication may be subject to change without prior notice.

---

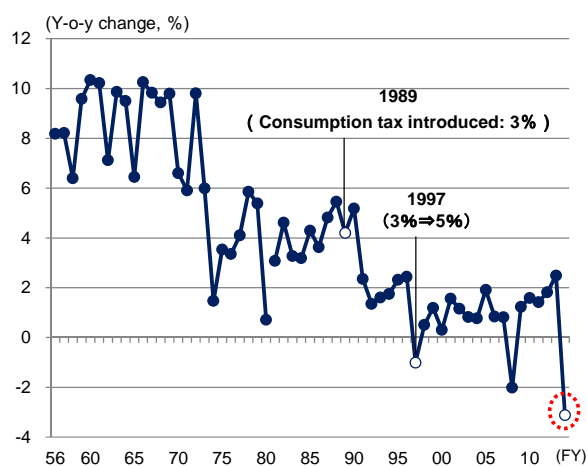
## 1. Recovery from the decline in personal consumption after the one-time demand rush remains weak

A look at personal consumption trends after the consumption tax hike reveals that the recovery from the consumer spending slump after the last-minute rush of demand is still tepid. Personal consumption in FY2014 (real personal consumption, GDP base) fell -3.1% y-o-y, demonstrating the biggest drop since statistics were first kept in FY1956 (**Chart 1**). Although the figures of the Jan-Mar quarter of 2014 before the tax hike were pushed higher by the last-minute demand rush, the figures for the Apr-Jun quarter fell significantly (down -5.1%) as a backlash to the demand rush. Even after the summer, the pace of recovery of durable and nondurable goods sales remained slow, resulting in a significant decline on an annual basis (**Chart 2**).

Compared with FY1997 when the consumption tax was last raised, the rise in consumption at the time of the tax hike was more or less on the same level (FY1996: up +2.4% y-o-y, FY2013: up +2.5% y-o-y), but the decline in consumption after the tax increase was larger this time (FY1997: down -1.0% y-o-y, FY2014: down -3.1% y-o-y).

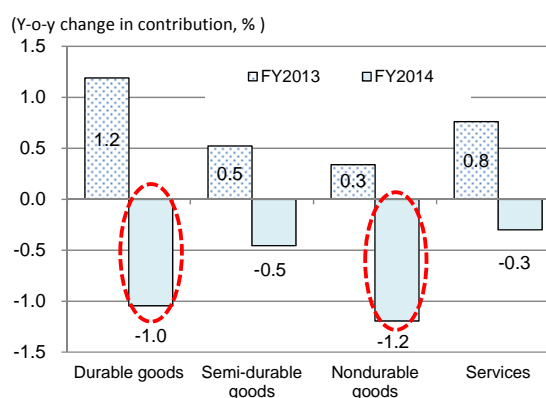
If we compare the average growth rate of consumption for the three-year period just before the last-minute demand rush (last time: FY1993 to 1995, this time: FY2010 to 2012), adjusting the change in consumption trend due to such factors as aging, the range of decline expanded by almost 2%pt this time, with -2.9%pt recorded in FY1997 and

**Chart 1: Trends in real personal consumption**



Note: Data before FY1980 are 68SNA based, and those from FY1981 are 93SNA based.  
Source: Made by MHRI based on the Cabinet Office, *National Accounts*.

**Chart 2: Factors contributing to real personal consumption**



Note: Contribution to real domestic personal consumption by type of goods.  
Source: Made by MHRI based on the Cabinet Office, *National Accounts*.

-4.7%pt in FY2014. Even if we discount the 1%pt higher tax rate increase this time (from 5% to 8% compared with 3% to 5% last time), it is fair to describe the latest personal consumption decline as quite significant.

In the coming section, we shall analyze the factors behind the sluggish personal consumption in FY2014 and provide an outlook going forward.

## **2. In addition to the significant drop of real income, the fall of consumption propensity is also a factor serving as a drag upon consumption**

Sluggish personal consumption in FY2014 can be explained by the decline in real income caused by the consumption tax increase and weaker consumer buying appetite. In **Chart 3**, we broke down the change in personal consumption into two factors: (1) change in real disposable income and (2) change in consumption propensity (proportion of consumption in disposable income). Change in buying appetite is thought to have an indirect impact on personal consumption through changes in consumption propensity.

In FY2014, a significant decline in real income and fall of consumption propensity contributed to the drop in personal consumption. The decline in real income was caused not only by the consumption tax hike but also by higher food prices due to the weaker yen. Furthermore, even though a drop in income usually leads to a higher consumption propensity in order to maintain the same level of consumption (the ratchet effect), in FY2014 consumption propensity declined despite the dramatic decline in income. The fall in consumption propensity may stem from factors such as a backlash to the last-minute rush of demand, and the loss of buying appetite accompanying the Abenomics package of economic stimulus measures from the late FY2012 due to the consumption tax hike.

An analysis of the same contributing factors by income bracket reveals that the drop in real income is the major reason for the slump in consumption in the low income bracket (**Chart 4**)<sup>1</sup>. On the other hand, in the high income bracket, both the drop in real income and decline in consumption propensity contributed to the fall of consumption in FY2014.

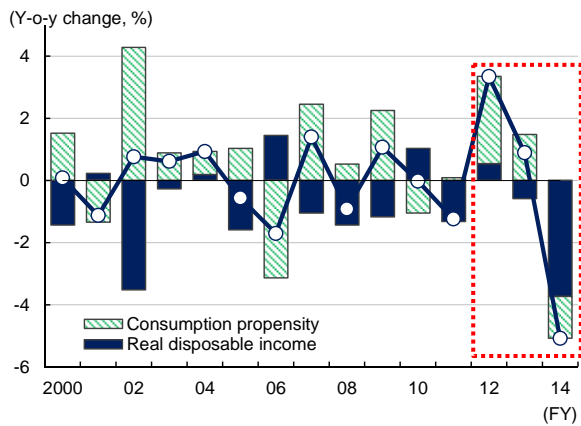
The decline in consumption propensity in the high income bracket may be explained as a backlash to its rise in FY2012 through FY2013. Since high income earners are

---

<sup>1</sup> Attention should be paid to the fact that the decline in income of the low income bracket may be affected by the sample bias of the *Family Income and Expenditure Survey*.

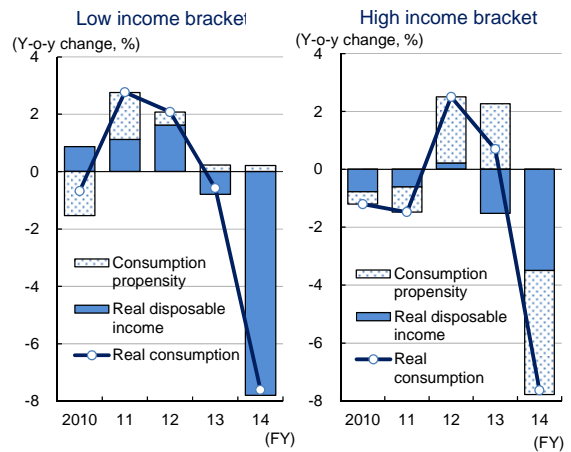
considered to have more savings than low income earners, they were able to use their savings to expand spending and increase consumption propensity after the launch of Abenomics and prior to the consumption tax hike. On the other hand, considering the predominantly low savings in the low income bracket, this segment most likely had limited room to expand consumption propensity.

**Chart 3: Factors contributing to real personal consumption**



Source: Made by MHRI based on the Ministry of Internal Affairs and Communication, *Family Income and Expenditure Survey*.

**Chart 4: Factors contributing to real personal consumption by income bracket**



Note: Low income bracket is the first and high income bracket is the fifth of the five quintiles.  
 Source: Made by MHRI based on the Ministry of Internal Affairs and Communication, *Family Income and Expenditure Survey*.

### **3. The swing in buying appetite is large in the high income bracket**

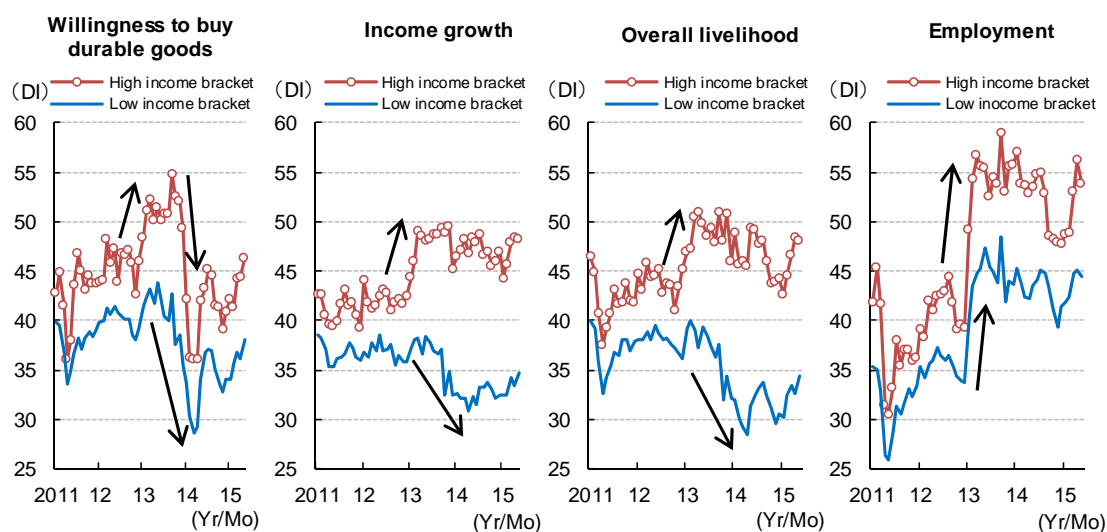
In the previous section, we pointed out that changes in buying appetite mainly in high income consumers may have had an impact upon personal consumption through fluctuations in consumption propensity. Now, let us confirm the consumer sentiment (consumer confidence index) for each consumer perceptions index by income bracket in order to see whether there are differences in buying appetite between the two income brackets.

Improvement in “willingness to buy durable goods” in the low income bracket remained more or less unchanged in the latter half of FY2012, but gradually deteriorated as the timing of the consumption tax hike approached. On the other hand, for the high income bracket, the index improved significantly after the outset of Abenomics but deteriorated sharply just prior to the consumption tax hike. This phenomenon is consistent with the fact that changes in consumer propensity of the high income bracket served as a driving factor in the consumption trend changes seen after the introduction of Abenomics.

Looking at other indices, “income growth” and “overall livelihood” of the high income group improved significantly from the latter half of FY2012, but there was no improvement in the indices of the low income bracket in the same period; the indices actually deteriorated from mid-FY2013, possibly driven by expectations that prices would rise in the future, fueled by higher food prices due to the yen depreciation and consumption tax increase. This is consistent with the fact that the drop in real income of the low income bracket in FY2014 served as the main factor behind the slump in personal consumption. Meanwhile, the consumer perceptions index for “employment” showed improvement after the launch of Abenomics for both income groups and continued to follow a favorable trend even after the consumption tax hike.

Based upon the above observations, the key to personal consumption recovery in the future lies in the increase in real income, coupled with the rise of consumption propensity through the improvement of buying appetite in the high income bracket and the improvement of real income in the low income bracket.

**Chart 5: Consumer perceptions index by income bracket (consumer confidence)**



Notes: 1. Low income bracket represents general households with an annual income under 3 million yen and high income bracket over 12 million yen.

2. Private consumption integrated estimates investigate business sentiment in the coming six months.

Source: Made by MHIRI based on the Cabinet Office, *Consumer Confidence Survey*.

#### **4. In the future, both real income and consumer confidence will fuel personal consumption**

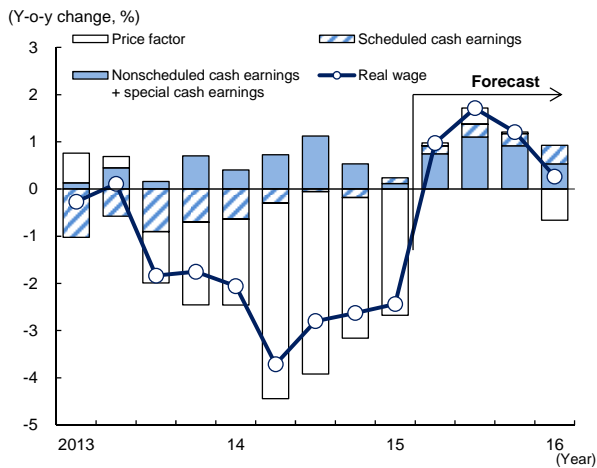
It is expected that real income, which caused a significant fall in personal consumption in FY2014, will start picking up from FY2015. Although real income in FY2014 fell a sharp -3.0% from the previous year, the rate of decline has been shrinking since the summer of 2014 (**Chart 6**). In the 2015 spring *shunto* labor-management wage negotiations, wages were raised on the back of improved corporate earnings. Going forward, scheduled cash earnings (base wages) and special cash earnings (bonus payments) are expected to rise. Real income in FY2015 is expected to grow from the preceding year for the first time in five years due to the recovery in nominal wages in addition to the fading price increase effect of the consumption tax hike and the fall of prices (particularly for energy) stemming from the fall of crude oil prices.

Furthermore, an improvement in buying appetite is also expected to drive personal consumption in the future. The deterioration in consumer sentiment (consumer confidence index) following the consumption tax hike seems to have pushed down growth in personal consumption (q-o-q basis) in FY2014 by -0.04% to -0.3% (**Chart 7**). That said, consumer sentiment began to show a gradual recovery from the latter half of

FY2014, and after the April to June period of FY2015, it is expected to drive personal spending after some time lag. Note that **Chart 5** shows a significant improvement with respect to “willingness to buy durable goods”, which is thought to have had a negative impact upon consumption propensity in the high income bracket.

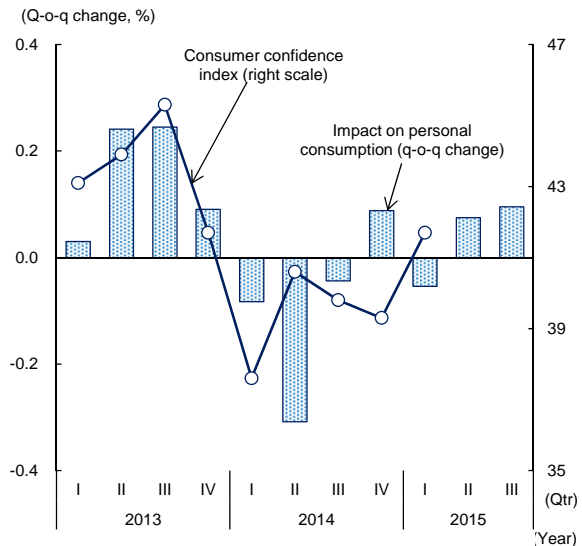
Thus, personal consumption after FY2015 is forecast to recover gradually reflecting the improvement in real income and buying appetite. On the other hand, when the consumption tax is raised again in FY2017, it will be necessary to implement additional measures such as income support for low income consumers in the form of benefit payments and a mechanism to restrain sharp swings in consumer buying appetite before and after the consumption tax hike.<sup>2</sup>

**Chart 6: Outlook of real wages**



Note: Data from the April - June period of 2015 are forecasts by MHRI.  
 Source: Made by MHRI based on the Ministry of Health, Labour and Welfare, *Monthly Labour Survey*.

**Chart 7: Impact of fluctuations in consumer confidence on personal consumption**



Note: Calculated by the error correction model using personal consumption, disposable income and outstanding financial assets as endogenous variables and consumer confidence as exogenous variables (third lag).  
 Source: Made by MRHI based on the Cabinet Office, *National Accounts* and *Consumer Confidence Survey*, Ministry of Internal Affairs and Communications, *Consumer Price Index*, and the Bank of Japan, *Flow of Funds*.

<sup>2</sup> For example, timely implementation of measures that affect the timing of consumer purchases, such as the eco-point system for home electronics adopted in 2009, may even out consumer buying appetite before and after the tax increase.